

~~REPORT~~
OF THE STUDY GROUP ON
COOPERATIVE CREDIT IN THE
~~AGRICULTURAL SECTOR~~



नामांगन संघर्ष

GOVERNMENT OF INDIA
MINISTRY OF COMMUNITY DEVELOPMENT & COOPERATION
(DEPARTMENT OF COOPERATION)

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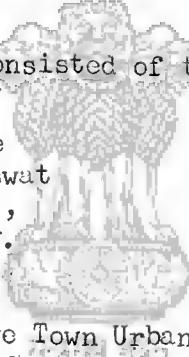
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Chapter-I

INTRODUCTORY

Non-agricultural credit societies, including urban co-operative banks and employees' cooperative credit societies, have made remarkable progress in some states. The development in the country as a whole, however, has not been even. Considering that such societies are the most suitable agencies for serving the credit needs of the urban middle-class, the government of India decided to appoint a team to examine the working of cooperatives in the non-agricultural credit sector and to suggest measures to ensure their sound and speedy growth. The study group was constituted by Notification No. 8-3/63-COORD dated the 31st May 1963 issued by the Ministry of Community Development & Cooperation, a copy of which is at Appendix I.

1.2 The study group consisted of the following members:-



1. Shri V.P. Varde Chairman, Saraswat Coop. Bank Ltd., Girgaum, Bombay.	...	Chairman
2. Dr. P. Natesan, Chairman, George Town Urban Coop. Bank, Madras.	...	Member
3. Shri P.R. Chakravarty, Member of Parliament.	...	Member
4. Shri Bhola Nath Chopra Secretary, Railway Clearing Accounts Office Employees' Thrift & Credit Society, Kishan Ganj, Delhi.	...	Member
5. Shri Bejoy Krishna Goswami Secretary, Calcutta Telephone Dist. Coop. Society Ltd., Calcutta.	...	Member
6. Miss Roma Mazumdar, Deputy Secretary, Ministry of Community Development & Cooperation, New Delhi.	...	Member Secretary

1.3 The terms of reference of the study group were as follows:-

(a) to examine the present patterns of organisation and working of non-agricultural credit societies including urban co-operative banks and employees cooperative credit societies;

(b) to recommend specific measures for their promotion and development on sound lines-

(c) to indicate programmes and physical targets for the organisation of such cooperatives during the third and fourth plans; and

(d) to recommend steps for close inter-relationship between cooperatives in this field with other fields of cooperative activity e.g. the cooperative banking structure and industrial cooperatives.

1.4 In order to elicit necessary information and views on the subject, questionnaires were issued to (a) state governments, (b) the national and state cooperative unions, (c) state cooperative banks, (d) selected urban cooperative banks, (e) selected employees cooperative credit societies, (f) federations of employers and (g) certain other selected organisations and individuals. Copies of the questionnaires issued to urban cooperative banks and employees cooperative credit societies are at Appendices II & III and a list of persons and institutions from whom replies were received to the questionnaires is at Appendix IV.

1.5 The study group also undertook tours to Hyderabad, Madras, Calcutta, Bombay and New Delhi where the working of certain employees' cooperative credit societies and urban cooperative banks was studied. A list of such institutions visited is at Appendix V. The group had also the benefit of meeting the Registrars of Cooperative Societies, representatives of the state governments, the state cooperative unions and the state cooperative banks of the states visited in addition to individuals and representatives of organisations

interested in the subject. Discussions were also held with the Registrar of Cooperative Societies, Madhya Pradesh. In Bombay, they further had the advantage of discussions with the Reserve Bank of India, the L.I.C. and the State Bank of India and, at the New Delhi, of meeting Deputy Minister in charge of Cooperation and the Secretary, Ministry of Community Development & Cooperation, the Director of Industrial Cooperatives in the Ministry of Industry and representatives of the National Cooperative Union of India, the National Agricultural Cooperative Marketing Federation, the International Cooperative Alliance, the National Cooperative Development Corporation and other officials and non-officials

1.6 The study group held an initial meeting in New Delhi on the 4th July, 1963. After completing its tours to Hyderabad, Madras, Calcutta, Bombay and New Delhi, it held a last meeting in New Delhi on the 18th and 19th December 1963 to finalise and sign the report.

1.7 We found that reference to the following documents and publications provided us with useful material for the purpose of our study:

- (a) The Report of the Cooperative Planning Committee appointed by the Government of India on the recommendation of the Fourteenth Registrars Conference;
- (b) Cooperative Banking in India by G.M. Laud;
- (c) the Report on the Survey of Urban Cooperative Banks, Reserve Bank of India;
- (d) the Report of the Second Working Group on Industrial Cooperatives, Ministry of Commerce & Industry;
- (e) the Pay Commission Report, 1957-59, Ministry of Finance;
- (f) the Report of the Staff Welfare Review Committee, Ministry of Home Affairs;
- (g) the Report of the Study Group on Cooperatives under Railways and Posts and Telegraphs Department, Ministry of Community Development and Cooperation;
- (h) the Report of the Committee on Cooperation Administration.

1.8 We are indebted to state governments for their assistance in organising our visits and supplying us the information required. We would also like to acknowledge our gratitude to the institutions and the officials and non-officials who personally or through correspondence helped us by giving us the benefit of their views.

1.9 We place on record our gratitude to the Chairman, Shri V.P. Varde, for giving us valuable guidance during our deliberations. We also place on record our deep appreciation of the efficient and sincere services of Miss Roma Mazumdar, Member-Secretary of the Group and Deputy Secretary in the Ministry of Community Development & Cooperation.



Chapter II

PRESENT DEVELOPMENT OF NON-AGRICULTURAL CREDIT
COOPERATIVES

PURPOSE

2.1 Non-agricultural credit societies cater to the banking and credit requirements of the urban middle class, e.g. the small trader or businessman, the artisan or factory worker, the salaried person with a limited fixed income in urban or semi-urban areas. While, as a class, they may be in a position to collect and invest a certain amount of savings over a period of years, they may also from time to time have demands on them which require them to take small loans. Such loans may be needed for what could be described as productive purposes, such as the acquiring or building or repairing of a house, the education of children or the setting up or advancing of a business or a trade. Loans may also be required for meeting recognised social obligations connected with marriages, funerals or religious ceremonies and for the redemption of old debts.

2.2. Though joint stock banks are now opening branches even in taluka or mandi towns they would not find it advantageous to meet the needs of this class. They would not be interested in developing the business of small loans repayable in small instalments as the cost of advancing and recovering them would be high. As they

clientele is different. Such cooperatives have two facets - they mobilise funds and they meet the financial requirements of the needy. Following the success of the urban credit institutions organised by Hormann Schultze in Germany and Luigi Luzzatti in Italy in the period 1855-85, social workers in India began to think in terms of cooperation as a means of bringing succour to the middle classes as early as the close of the 19th century. Middle class Maharashtrian families in Baroda got together to start a mutual aid society on the 5th February, 1889, under the guidance of the late Shri Vithal Laxman Kavthekar. While legal status was first conferred on credit societies with the needs of the agricultural sector particularly in view, in piloting the legislation Sir Ibbotson said, "We recognise that artisans, employees on small pay and other persons of meagre means residing in the towns may very properly be admitted to the benefits of our legislation." In Madras, the first urban society was registered in October 1904 at Conjeevaram. The Betegiri Cooperative Credit Society in Dharwar district was the first society to be registered in Bombay in October 1905. In Mysore, the Bangalore City Cooperative Credit Society was registered in December 1905.

2.4 Little attention was paid to the development of the urban credit movement until the MacLagan Committee drew attention to its potentials. The failure of the Swadeshi joint stock banks created an opportunity for cooperative banking to develop as a medium for mobilising the savings of persons of modest means, and helping those whom financial distress caused by high living costs and unemployment had driven into the clutches of moneylenders. The inter-war period did not affect the urban credit movement as adversely as it affected the agricultural credit movement. This may be due to the fact that during the depression the fall in urban incomes was not as steep as the fall in rural incomes. Another contributory factor to the stability of the movement in urban areas was the comparatively high standard of managerial efficiency available in urban areas and which urban co-operatives could afford due to their larger resources. The

conditions arising out of the second world war provided a fresh stimulus to this sector and the non-agricultural cooperative credit movement has been able to maintain a steady progress, in at least parts of the country, without any financial assistance.

2.5 Non-agricultural credit cooperatives now comprise over 12,000 societies and cover nearly a third of the urban families. They had a working capital of over Rs.164 crores composed mainly of owned funds and deposits and advanced loans of the order of Rs.161 crores in 1961-62. It will be seen that this sector is contributing substantially both to cooperative thrift and cooperative lendings. Details of the progress of the sector are given below.

COVERAGE

2.6 In 1951, the percentage of urban population covered by non-agricultural credit cooperatives was 18%. Coverage was highest in Kerala (42%) followed by Maharashtra (33%), Madras (24%) and Orissa and West Bengal (23%). However, in the remaining states only about (10%) of the urban population was covered by non-agricultural credit cooperatives.

2.7 Within a period of 10 years, the all India coverage increased to 29%. Again, coverage was highest in Kerala (59%) followed by Maharashtra (49%), Madras (42%) and West Bengal (40%). While no appreciable progress was made in Orissa, the states of Gujarat and Mysore made some headway. Coverage in these states increased from 17% to 36% and from 15% to 34% respectively. Non-agricultural credit cooperatives in the other states covered on an average only about 13% of the urban families.

2.8 The table below indicates the percentage of urban population covered by non-agricultural credit cooperatives in the different states and in the union territories in the years 1951 and 1961. This has been worked out on the basis of the urban population of India according to the census reports of 1951 and 1961, and by assuming that there are five members in each family and only

one of them could be a member. Certain non-agricultural cooperatives such as women's thrift and credit societies may be located in rural areas, and to that extent the figures below are only approximate. The figures relate to the states and union territories as demarcated at present and not as in 1951.

Table 2.1: Percentage of urban population covered by non-agricultural credit cooperative societies.

State	1951	1961
Andhra Pradesh	14	20
Assam	4	15
Bihar	9	12
Gujarat	17	36
Jammu & Kashmir	8	3
Kerala	42	59
Madhya Pradesh	6	9
Madras	24	42
Maharashtra	33	49
Mysore	15	34
Orissa	23	24
Punjab	6	16
Rajasthan	4	5
Uttar Pradesh	5	12
West Bengal	~	40
U.Ps(H.P., Delhi, Manipur and A&N Islands)	6	17
Total:	17.49	29

PROGRESS

2.9 Numerically, the number of non-agricultural credit societies rose from 7,810 in 1950-51 to 12,286 in 1961-62, representing an increase of 57% within 12 years. During the period, membership increased by 127%, rising from 21.78 lakhs in 1950-51 to 49.54 lakhs in 1961-62.

2.10 The working capital of these societies increased from Rs.58.78 crores in 1950-51 to Rs.164.83 crores in 1961-62 representing an increase of 190% in a period of 12 years. The working capital was largely constituted of deposits. These rose from Rs.35.05 crores in 1950-51 to Rs.102.67 crores in 1961-62, representing an increase of 193%. There was a similar increase in share capital which rose from Rs.12.12 crores in 1950-51 to Rs.36.97 crores in 1961-62. Loans advanced also increased proportionately. In 1960-61, non-agricultural credit cooperatives advanced Rs.47.29 crores. In 1961-62, they advanced Rs.161.63 crores, an increase of 242%. It will be seen that, to a very large extent, such cooperatives depended on their own funds and deposits, and that considerable progress was made in these fields.

2.11 The table below indicates the trend of progress during the two five year plans in the country:

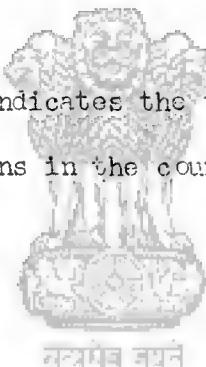


Table 2.3. Stand of progress of non-agricultural credit cooperative societies since the beginning
of the first plan.*

Year	Number	Membership (in lakhs)	Share capital (Rs. in crores)	Deposits (Rs. in crores)	Working capital Loans advanced (Rs. in crores)	
					Deposits (Rs. in crores)	Working capital Loans advanced (Rs. in crores)
1950-51	7,810	21.78	12.12	35.05	56.78	47.29
1955-56	15,003	30.73	19.09	53.54	85.74	72.06
1956-57	10,150	35.39	20.84	64.59	100.41	82.07
1957-58	10,430	36.74	21.02	60.73	102.53	87.34
1958-59	11,084	40.82	26.49	75.81	121.47	110.18
1959-60	11,421	42.32	30.61	88.43	137.24	117.40
1960-61	11,965	45.73	32.97	95.05	150.11	130.37
1961-62	12,286	49.54	36.97	102.67	164.83	161.63

* Based on "Cooperative movement in India - Important Statistics 1961-62" published by the Ministry of Community Development and Cooperation.

COMPARATIVE POSITION IN THE STATES

2.12 As stated earlier, in 1961-62, the total number of societies had gone up to 12,286 and membership to 49.54 lakhs. Punjab had 2,213 such societies which was the largest number in any state though the aggregate membership was comparatively low at 1,36,590. The state of Maharashtra followed with 1,720 societies, Mysore with 1,083 societies, U.P. with 1,057 societies and Madras with 1,025 societies. The total membership was the largest in Maharashtra and Madras (12.21 lakhs and 8.43 lakhs respectively) succeeded by West Bengal (6.96 lakhs) though the latter had a comparatively smaller number of societies i.e. 679.

2.13 In 1961-62, the total working capital of non-agricultural cooperatives increased to Rs.164.83 crores of which Rs.102.67 crores were deposits and Rs.36.97 crores represented share capital. Loans advanced during this year were to the extent of Rs.161.63 crores. Rs.149.36 crores were recovered and loans outstanding were Rs.129.92 crores of which overdues were Rs.8.16 crores. The total working capital was highest in Maharashtra (Rs.49.70 crores) followed by West Bengal (Rs.35.59 crores), Madras (Rs.20.78 crores) and Gujarat (Rs.17.12 crores). Similarly, deposits were highest in Maharashtra (Rs.27.68 crores), West Bengal (Rs.24.86 crores), Madras (Rs.13.05 crores) and Gujarat (Rs.10.86 crores). Share capital was also highest in Maharashtra (15.32 crores). Total loans advanced were Rs.48.03 crores in Maharashtra, Rs.53.69 crores in Gujarat, Rs.23.49 crores in West Bengal and Rs.22.26 crores in Madras.

2.14 The table below gives state-wise details regarding non-agricultural credit cooperative societies in the year 1961-62.

Table 2.3: Details regarding non-agricultural credit cooperative societies in the different states in 1961-62 *

State	No. of societies. (in thousands)	Membership			Working capital (Rs. in lakhs)	Loans advanced
		Share capital	Deposits	Working capital		
Andhra Pradesh	290	2,64	3,96	6,77	4,73	
Assam	246	27	11	1,05	42	
Bihar	202	93	96	5,80	4,52	
Gujarat	879	4,11	3,61	10,86	33,69	
Jammu & Kashmir	87	3	1	-	3	
Kerala	356	2,25	36	1,70	2,45	
Madhya Pradesh	556	88	51	1,80	2,14	
Madras	1,025	8,43	2,87	13,05	22,26	
Maharashtra	1,720	12,21	15,32	27,68	49,70	
Mysore	1,083	5,19	2,65	7,36	12,79	
Orissa	205	45	19	83	13,97	
Punjab	2,212	1,36	54	48	1,18	
Rajasthan	354	41	25	59	1,26	
Jharkhand	1,057	2,42	1,34	2,41	72	
West Bengal	679	6,96	5,89	24,86	1,02	
Union Territories.	654	1,00	75	1,85	4,41	
					23,49	
					33,39	
					2,60	
Total:	12,286	49,54	36,97	102,67	164,67	
						161,63

Based on "Cooperative movement in India - Important statistics 1961-62" published by the Ministry of Community Development and Cooperation.

• • •

2.15 3615 societies were classified as A and B class societies, for 1960-61, and 6,028 as C, D and E class societies. In other words 37% of the total audited and classified societies belonged to the A&B class. Maharashtra and Gujarat had a fairly large percentage of societies in the A and B Class. In the other states, the position was less satisfactory. In West Bengal, the majority of societies had not been classified, and figures for Bihar were not available. During 1961-62, 8004 societies declared profit and 2,379 declared loss, the total amount of profit being Rs.308 lakhs and of loss Rs.16 lakhs according to the figures available. Thus, 65% of the total number of societies declared profit and 19% loss.

2.16 The state wise position in this respect is indicated in the table below:

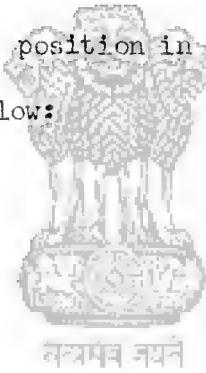


Table 2.4: Classification of non-agricultural credit cooperative societies for 1960-61 and profit and loss position in 1961-62. *

State	A&B class	C, D& E class	Unclassi- fied.	Unaudited Number	<u>Societies declaring profit</u>		Societies declaring loss	No. of ties with out/ or loss
					Amount	Number		
Andhra Pradesh	197	577	46	559	14	250	2	81
Assam	115	214	48	255	2	96	-	91
Bihar	1.4.	N.A.	13	107	6	38	-	57
Gujarat	640	157	134	672	32	132	1	74
Jammu & Kashmir	4	4	27	6	-	3	-	78
Kerala	52	218	75	208	7	119	4	9
Madhya Pradesh	18	344	9	290	4	99	1	167
Madras	265	569	62	22	29	188	3	54
Maharashtra	892	360	15	783	39	160	1	215
Mysore	666	821	4	1,345	29	235	2	233
Orissa	8	175	46	633	22	38	-	38
Punjab	333	1,631	40	2,220	3	42	-	83
Rajasthan	71	159	151	1,262	4	810	1	97
U.P.	67	477	40	86	2	35	-	426
West Bengal	-	-	-	559	6	72	-	103
U. Territories.	157	321	15	96	70	50	1	114
Total:	3,615	6,028	1,008	2,159	114	491	-	1,962
					3,08	2,379	16	1,962

* Based on "Cooperative movement in India - Important statistics 1961-62" published by the Ministry of Community Development and Cooperation.

THE AVERAGE SOCIETY

2.17 From this data, it would appear that the average non-agricultural credit cooperatives in the country was, during 1961-62, a society with 400 members and a working capital of Rs. one lakh thirty four thousand (share capital consisting of about Rs.30,000 and deposits Rs.80,000) which advanced over Rupees one lakh thirty thousand as loans. 6% of the loan outstanding was overdue. The picture varied considerably in the country. The strongest cooperatives in respect of membership, share capital, deposits and loans advanced existed in West Bengal, Maharashtra and Madras. The overdues position was also very satisfactory in West Bengal and Madras though it was high in Maharashtra. It will be recalled that in these states coverage was also above average. These states represent the leading states in this sector of the cooperative movement.

2.18 In Bihar and Gujarat, the average society had a lower membership than in these three states. The deposit, working capital and loaning position was however comparable. Deposits in the average Bihar society, particularly, were of a high order, whereas in Gujarat, the loans advanced by the average society were the highest in the country. The coverage in Gujarat was also satisfactory, but in Bihar the societies, though excellent in themselves, were restricted to only certain areas of the state. The overdues position in these two states was again very satisfactory. Coverage was also above average in Mysore and a representative society in the state had adequate membership and working capital. Loans advanced were also considerable.

2.19 The societies in Kerala and Andhra Pradesh come closest to these states in membership and performance

In Kerala, particularly, the coverage was excellent and membership of the individual society was high, though the position regarding deposits, working capital and loans did not compare to the societies in the states already mentioned. Considerable effort in the remaining states will have to be made to reach the standards in the states discussed earlier

2.20 The table below gives a picture of the average society in each state:



Table 2.5: Relative details of the average non-agricultural cooperative credit societies, 1961-62 *

State	Membership	Share capital	Deposits	Working capital	Loans advanced	Overdues as percent of outstanding loans
Andhra Pradesh	297	15,843	44,494	76,292	53,146	20
Assam	78	3,179	23,988	30,347	12,139	6
Bihar	460	47,525	2,18,317	2,87,329	2,23,762	2
Gujarat	468	41,069	1,23,549	1,94,767	3,83,276	6
Jammu & Kashmir	34	1,149	276	8,046	3,448	29
Kerala	670	10,667.	50,595	88,393	72,917	17
Madhya Pradesh	158	9,173	32,374	50,000	38,489	12
Madras	822	28,000	1,27,317	2,02,732	2,17,171	6
Maharashtra	710	89,070	1,60,930	2,88,953	2,79,244	29
Mysore	479	24,169	67,959	1,40,351	1,19,760	1
Orissa	220	9,263	40,488	57,561	36,610	21
Punjab	61	2,410	2,169	8,224	5,694	33
Rajasthan	115	7,062	16,677	28,814	20,339	10
Uttar Pradesh	229	12,677	22,300	41,816	15,043	3
West Bengal	1,025	86,715	3,66,127	4,91,753	3,45,950	2
Union Territories.	153	11,468	28,287	48,930	39,755	4
All India	203	30,691	1,83,662	1,34,161	1,31,556	6

* Based on "Cooperative movement in India - Important statistics 1961-62" published by the Ministry of Community Development and Cooperation.

THE AVERAGE MEMBER

2.21 In so far as the average member in each state was concerned, the all India picture was that he had invested Rs.75 in share capital, Rs.207 in deposits and was advanced a loan of Rs.326 in 1961-62. The highest holdings in the share capital per member were in Maharashtra and Bihar, followed by West Bengal and Gujarat. Deposits per member were highest in Bihar e.g. Rs.474 followed by West Bengal where they were Rs.357. Loans advanced per member were again highest in Gujarat e.g. Rs.810, Bihar (Rs.486), West Bengal (Rs.338) and Maharashtra (Rs.305).

2.22 The table below gives a picture of the average member in each state:

Table 2.6: Relative details of the average member of a non-agricultural credit cooperative society in India 1961-62.

State	Share capital	Deposits	Loans advanced
Andhra Pradesh	53	150	159
Assam	41	307	156
Bihar	103	474	486
Gujarat	88	284	810
Jammu & Kashmir	33	2	100
Kerala	25	72	109
Madhya Pradesh	58	205	243
Madras	34	155	264
Maharashtra	125	227	393
Mysore	51	142	250
Orissa	42	124	162
Punjab	40	55	97
Rajasthan	61	144	176
Uttar Pradesh	53	100	66
West Bengal	85	357	338
Union Territories	75	135	260
All India	75	217	326

Based on "Cooperative Movement in India - Important Statistics 1961-62" published by the Ministry of Community Development and Cooperation.

COMPARISON WITH AGRICULTURAL CREDIT COOPERATIVES.

2.23 Evidently, non-agricultural credit cooperatives occupy an important place in the cooperative credit structure. financial terms e.g. owned funds, deposits and working capital. they are by far the strongest part of the primary credit structure being largely self reliant. This is indicated by the table given below:

Table 2.7: Comparative position of agricultural and non-agricultural cooperative credit societies. 1961-62.

	Agricultural Credit societies.	Non-agricultural credit societies
Number	2,14,942	12,286
Membership	195.60 lakhs	49.54 lakhs
Share capital	38.61 crores	36.97 crores
Deposits	17.34 crores	102.67 crores
Working capital	325.25 crores	164.83 crores
Loans advanced	228.09 crores	161.68 crores
Loans recovered	190.46 crores	149.36 crores
Loans outstanding.	256.89 crores	129.92 crores
Of which overdue	62.92 crores	8.16 crores
Share capital as percentage of working capital.	21	22
Deposits as percentage of working capital.	5.4	6.2
Outstandings as percentage of working capital.	79	78

DIFFERENT TYPES OF SOCIETIES

2.24 The figures given in this chapter relate to all types of non-agricultural credit cooperatives. Such cooperatives however comprise the following three distinct types of societies:

- (1) Urban cooperative banks, where deposits are usually withdrawable by cheques and which carry on normal banking functions (details regarding these institutions, as far as available, are at Appendix VI);
- (2) Employees cooperative credit societies including factory workers credit societies which receive deposits from members and non-members meet the requirements of permanent or semi-permanent salary earners in a particular organisation (details regarding these institutions, as far as available at Appendix VII); and
- (3) Other types of non-agricultural credit societies such as credit societies catering to a particular profession e.g. weavers, fishermen, etc. or a particular community or religious group. They include industrial banks and a considerable number of women's thrift and credit societies and societies which do not fall strictly into either of the above two categories (details regarding these institutions, as far as available, are at Appendix VIII).

2.25 The objectives, working and problems of these different types of non-agricultural credit societies are materially different. It would, therefore, be advantageous if separate statistics could be collected for each type of society. We have tried to collect such statistics from the state governments for the purpose of the report, but have not always been successful as this is not being done on a normal basis in all states. We have, however, tried to deal separately in this report with the problems relating to urban cooperative banks and to employees cooperative credit societies in the next two chapters. General promotional measures relating to both types of societies are dealt with in the succeeding chapter. A summary of recommendations is given at the end.

Chapter III

URBAN COOPERATIVE BANKS

DEFINITION

3.1 Among the non-agricultural credit societies, urban cooperative banks occupy an important place. Their main function is to promote thrift by attracting deposits from members as well as non-members and to advance loans to members. Some urban cooperative banks also provide other facilities such as remittance of funds, collection of cheques and bills, and safe deposit vaults, in other words, all the facilities provided by commercial banks.

3.2 The statistics available regarding urban cooperative banks are subject to several limitations, the principal among them being the ambiguity and lack of uniformity of definition of the term "urban cooperative bank". As a result very few states collect separate statistics for such institutions and it is difficult to analyse their progress or problems. The term "bank" is used loosely in some states and gives a misleading picture to the public as some societies so named do not undertake regular banking activities.

On the other hand, we came across certain cooperatives carrying on regular banking business but designated as credit societies. This has to some extent stood in the way of attracting the confidence of the people and thereby hampered the further development of the banks. It would be of advantage to adopt a uniform definition of urban cooperative banks so that they could be easily distinguished from other credit societies. This would facilitate comparison of their position in different states, implementation of a national policy for the development of such institutions and maintenance of a separate watch on their progress.

3.3 In Maharashtra, according to the recommendations of the Bhansali Mehta Committee, only those urban credit societies which do banking business as defined in Section 277(f) of the Indian Companies Act, 1943 (which is now Section 5(i)(b) of the Banking

Companies Act, 1949, i.e., 'banking' means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise;) and have a paid-up share capital of not less than Rs. 20,000, have been allowed to use the word "bank" in their nomenclature.

3.4 In other states, no clear definition of an urban cooperative bank has been laid down. The definition as in Maharashtra may be considered for adoption. However, in so far as the definition relates to a minimum paid-up share capital of Rs. 20,000, it is pointed out that a weak or vulnerable capital structure is one of the chief defects of banking institutions. The Banking Companies Act has, therefore, laid down minimum standards for joint stock banks depending on their area of operation. Judged by these, the minimum standard is a paid-up share capital and reserves of Rs. 50,000 which is considered necessary for allowing any joint stock banking company to function, if it has only one place of business excluding Bombay or Calcutta in any one state. On the other hand, the standard prescribed for an urban cooperative bank in Maharashtra is only Rs. 20,000 paid-up share capital. This may be partly due to the fact that the standard for an urban bank was fixed in 1938 while the Banking Companies Act was passed in 1949, and the value of the rupee has slumped appreciably during the intervening period. It may be argued that as urban cooperative banks are owned and administered by the depositors themselves, the confidence reposed in the management has a greater validity than the capital base. However, the question must be examined in the context of the ability of an institution to employ qualified, trained and experienced staff. This is possible only if they have certain minimum resources. We would suggest that, at present, the minimum amount should be fixed in the case of urban cooperative banks, as in the case of commercial banks, at Rs. 50,000 paid-up share capital.

3.5 As such we would recommend that the definition of an "urban cooperative bank" should include the following features:-

- (a) a credit cooperative registered under the state cooperative societies act in urban or semi-urban areas;
- (b) a minimum paid-up share capital of Rs. 50,000; and
- (c) provision of banking facilities, e.g., accepting for the purpose of lending or investment of deposits from members and non-members repayable on demand or otherwise and withdrawable by cheque, draft, order, etc.

COVERAGE

3.6 We have tried to collect information regarding urban cooperative banks in the different states. We have not been able to obtain information from all states but, in so far as it is available, we give below the number of societies and the total membership of such societies in the years 1960-61 and 1961-62.

Table 3.1 : Number and membership of urban cooperative banks

State	1960-61		1961-62	
	No. of Societies	Membership	No. of Societies	Membership
Bihar		----- Nil -----		
Madhya Pradesh.	18	20,000	19	22,000
Madras.	156	4,17,000	163	4,80,000
Maharashtra.	149	4,33,000	162	4,45,000
Orissa.	15	28,000	15	28,000
Punjab.	50	5,000	50	5,000
Rajasthan.	9	2,000	9	3,000
Uttar Pradesh.	--	Nil	--	
Pondicherry.	2	8,100	2	8,100
Tripura.	--	Nil	--	

3.7 We do not have data relating to urban cooperative banks for the country as a whole. However the statistics above give an indication of the uneven development of such institutions in the

country. In all these states, urban cooperative banks numerically constitute a small percentage of the non-agricultural cooperative credit societies in the states. Madras and Maharashtra have the largest number. However, even in states which have a large number of societies, the whole state is not evenly covered. For instance, while in the western part of Maharashtra almost every urban area has an urban cooperative bank, the urban banking movement in the Vidarbha and Marathwada regions is relatively undeveloped. In certain large regions in the country such as the important states of Uttar Pradesh and Bihar, there are no urban cooperative banks at all. As such at present only a small percentage of the 2,690 towns in the country with their population of over 15 million families has been covered. With economic development and industrialisation, existing towns and cities are rapidly expanding and many new centres and townships including industrial centres and headquarters of community development blocks are coming into existence. Such areas increasingly require banking facilities and urban cooperative banks would be able to cater to the needs of the people. They would also be instrumental in promoting thrift in places where large sums of money are being spent in the process of economic development and extending the cooperative commonwealth in urban areas. We would therefore recommend that each state should assess the scope for the establishment of urban cooperative banks in new centres and in different parts of existing municipalities or taluka towns in the state, with a view to organising such institutions. The suggestion of the Cooperative Planning Committee appointed on the recommendation of the Fourteenth Conference of Registrars of Cooperative Societies in 1945 that, in view of the usefulness of urban banks to people of small means, these should be organised in all towns, requires to be taken up seriously for implementation. In every town with a population of over 1 lakh, the possibility of organising additional urban cooperative banks may be considered.

3.8 The area of operation of an urban cooperative bank is normally restricted by its bye-laws to a municipal area or a town. In certain cases it exceeds this area. The urban cooperative banks in Delhi, for instance, have the whole of the union territory of Delhi as their area of operation. Normally, it would be advisable for an urban cooperative bank to restrict its area of operation to the municipality or taluka town where it operates. However, in the surrounding rural and semi-urban areas certain persons who would normally be members of the primary agricultural credit society may not be able to get credit from that society and they may be allowed, with the permission of the Registrar of Cooperative Societies, to become members of the urban cooperative bank in the neighbouring town.

3.9 It was also observed that, in a majority of cases, no demarcation of area of operation within the town is made. As such, more than one urban cooperative bank may function in the same town in the same area of operation. As the coverage at present is not very extensive we did not come across any difficulty in this regard. However, when coverage becomes more intensive and competition for deposits increases, it may be advisable, if necessary, to restrict the area of operation to certain wards or zones or categories of persons so that there is no overlapping of jurisdiction of the different banks.

MEMBERSHIP

3.10 From the data available it will be seen that membership of an urban cooperative bank varies considerably. The banks in Pondicherry appear to have the largest average membership, i.e., over 4,000. While in Madras and Maharashtra the average membership of an urban cooperative bank is almost 3,000, in Orissa it was 1800, in Madhya Pradesh and Punjab about 1,000 and in Rajasthan only about 300. Efforts to enroll a larger number of members is obviously necessary as even where urban cooperative banks exist, their membership constitutes only a small proportion of the total

population of the towns served.

3.11 Controversy regarding the reasonable size of a society has been carried on since Schultze pointed out that in the case of an unwieldy society there was a danger that personal bonds would be eliminated and the society turned into a capitalist enterprise. This view was expressed from time to time in India. For instance, the Registrar of Bombay complained in his administration report in 1915-16 that "the unwieldy body of members loses coherence as it abandons the principle of mutual acquaintance and forfeits real control over the managing committee. A tendency to give excessive loans to single individuals, and to prefer real to personal security, becomes apparent. Dividends are greedily sought as an object in themselves. Arrears and extensions mount up. The committee, as the volume of business increases, relaxes its grip on the details of administration and becomes less inclined to attend to the advice of the Registrar. These dangers appearing here and there are mentioned because the collapse of one of these big urban banks would be a serious catastrophe to the whole movement. No such event is, however, on the horizon."

The Maclagan Committee warned that "the main principles, which govern the administration of agricultural credit will be equally applicable to the organisation of non-agricultural and non-credit societies," and "large societies are to be deprecated," since they "must inevitably lose their cooperative character." The Townsend Committee however found in Madras "banks with 2,000 members doing very well, while many of the smaller banks were not prospering." The Central Banking Enquiry Committee urged that "the development of large urban banks should be encouraged, though restrictions on the area of operation may be considered with reference to the extent of population of the towns served by the banks, so that the operation of the banks may not become unwieldy."

3.12 It would be dangerous, at this stage of the growth of the urban credit movement, to lay down dogmatic restrictions as

to the size of the institution. Broadly it should provide a strong base for raising adequate resources so that reasonable demands can be met, an efficient and progressive management may be employed and confidence can be created among the depositors. The Report on the Survey of Urban Cooperative Banks, 1957-58 suggested that a membership of 1500 would be required for a viable institution and this minimum figure should be aimed at. Urban cooperative banks with a much larger membership have been found to be working well and according to sound cooperative principles. Active efforts should be made by the management of the urban cooperative banks to expand their membership. At the same time, the possibility of reducing the control of the individual member over the society and its policy should be avoided. We have already recommended that the area of operation of an urban cooperative bank should be restricted to a municipality or town and in large towns, if it becomes necessary, zones or wards may be demarcated as the area of operation. The means of ensuring adequate member participation is also discussed subsequently in the report.

3.13 The membership of urban cooperative banks is composed of persons living in urban areas such as traders, merchants, salaried and professional classes, etc. The conditions relating to the membership of these banks are laid down in their bye-laws. We feel that generally membership of urban cooperative banks should be open to all persons competent to contract residing in the area of operation.

3.14 A large number of urban cooperative banks were started as communal societies. Some of the largest banks in Maharashtra and Delhi, for instance, were initially organised to cater to the needs of certain communities. Originally there were certain advantages in having banks for members belonging to a compact group having a fairly intimate knowledge of each other's character and resources.

In a town or city it would be difficult to find any other common nexus which would ensure an equal degree of acquaintance among the members. However, these advantages are outweighed by the disadvantages of organising cooperatives on a communal basis in the present context. Economic interests rather than community or caste should be the bond between the members and the latter distinctions should not be fostered. In a cooperative institution which observes the principles of open membership. The Maharashtra government, it is understood, does not now, as a matter of policy, register societies formed on communal basis and banks organised on such basis have since revised their bye-laws and thrown membership open to all communities. This position does not however obtain in all states. We would therefore advise that urban cooperative banks should not in future be organised on a communal basis and existing societies so organised should suitably amend their bye-laws to throw membership open irrespective of caste, creed or religion. Watch should also be kept to ensure that these bye-laws are given effect to in practice.

3.15 In Calcutta, we found a society (though carrying on banking functions it is known as a credit society) had restricted its membership to landholders only. As a result its membership was small and the majority of persons within the area of operation were denied the benefits of the institution. This again appears objectionable. It should be possible to confer membership on all those who are in need of the facilities that a cooperative bank can extend within its area.

3.16 Ordinarily, there should not be more than one class of members in an urban cooperative bank. We however came across the example of certain societies having two classes of members, each class holding shares of different value. The members holding shares of lower value did not have the right of voting. Several banks have also been prompted to introduce nominal membership to meet

the difficulties experienced by persons of limited means in obtaining small loans by pledging valuable articles and jewellery.

Nominal members are admitted on payment of a small entrance fee.

They do not subscribe to the share capital nor do they have the right of voting or participating in the management. They are also not interested in the distribution of profits and do not face any liability in the event of the society being wound up. This system was introduced to meet exceptional circumstances but has become a popular means of denying the right of participation in the management to persons eligible for membership. This system also deprives the bank of the opportunity to collect and retain, on a continuing basis, the additional capital which would have been derived from these members. The practice of nominal membership should be done away with and all persons obtaining credit and eligible to be members should be enrolled as such. All members should be extended equal rights and the privileges of full membership. Even if nominal membership is to be provided to assist those unable to purchase shares in the initial stages, it should be ensured that this is only a temporary feature and that the constituents become full members in the course of a few years.

3.17 The only exception in this respect may be in the case of such persons as are not eligible to be members, for example, persons already members of a credit cooperative or persons not residing in the area of operation or minors, and who may not be actual borrowers, but who may have some interest in the property which a member may offer as the security for a loan from the bank. If a member of a joint family, for instance, intends to borrow from the urban bank against the security of mortgage of real property, the other persons in the joint family who have some interest in the property to be mortgaged, may be eligible to become nominal members of the bank to enable the regular member to borrow and, in case of default, they may be brought under the purview of

arbitration proceedings under the cooperative societies act.

3.18 The final authority in a cooperative society is the general body of members. It is essential that the meetings of this body should be held regularly every year and the effective participation of the members encouraged in accordance with the act, rules and bye-laws. We found that such meetings are very much delayed in certain states largely due to the late receipt of the audit reports. It should be obligatory that the audit report should be submitted so as to ensure that the general body meeting may be held within three months of the close of the cooperative year. In exceptional cases the period may be extended for another three months. The Registrars of Cooperative Societies have certain statutory powers to ensure that such meetings are held. They should see to it that audit is completed in time and general body meetings are held in accordance with the law.

3.19 As the membership of an urban cooperative bank normally extends to only one town or a part of a town there should be no difficulty by way of distance in attending general body meetings. Even in the case of such urban cooperative banks which have a very large membership, no practical difficulties in holding the meetings of the general body were experienced as normally only a small percentage of the members attend. However, if and when the general body at an annual meeting becomes unwieldy due to the number of members being very large, the possibility of holding meetings of representatives of the members rather than of the members themselves can be explored.

3.20 An active and intelligent membership is the primary requirement in the translation of cooperative principles into actuality. In the urban areas, members and prospective members of cooperatives are more likely to be educated and the task of informing them of the benefits and the responsibilities of the cooperative movement should be accordingly easier than in rural areas. The education of such members is the function of the

National Cooperative Union of India and the state cooperative unions. We did not however come across any systematic training or publicity programme for members or prospective members in urban areas and even in towns where the unions have their headquarters. We would make the following suggestions in this respect:-

(a) As members and prospective members of urban cooperative banks are generally literate, suitable literature would be particularly effective for this group. The national or the state cooperative unions should bring out pamphlets or booklets in English or the regional languages regarding the functions of and benefits of urban cooperative banks, the responsibilities of the members and the cooperative principles involved.

(b) The Saraswat Cooperative Bank, Ltd., in Bombay, observes the practice of calling quarterly meetings. Members attending the meetings get an opportunity to air their views and arrive at an understanding of the functions of the institution. Simultaneously the active participation of the members is secured and the directors are kept alert and responsible as they have to regularly face the scrutiny of the members. A similar practice may be introduced by other urban cooperative banks. On such occasions they may find it useful to invite leading cooperators or officials of the cooperative departments to give a talk on the subject.

(c) There are some excellent urban cooperative banks functioning in different parts of the country. It would be useful if social workers, directors and members of urban cooperative banks, etc., are enabled to visit such institutions to study the features that have made them successful.

BOARD OF DIRECTORS

3.21 The general body of the urban cooperative bank consisting of all its members elects a board of directors periodically with a

President, a Secretary, and in some cases a Treasurer and usually an Executive Committee which can meet more often and look into the day-to-day affairs of the bank. The relative powers and functions of the different bodies and office-bearers, the procedure to be adopted by them and other relevant matters are laid down in the bye-laws. The final authority in all matters rests with the general body but the actual conduct of the affairs of the bank rests with the board of directors and the Secretary of the bank.

3.22 The period of election to the board of directors varies in the states. The usual practices are to hold elections (a) each year, (b) once in three years, and (c) each year by rotation for one-third of the board. There appears to be no particular advantage in holding elections each year. It is expensive, takes up time and energy and the directors have hardly time to get acquainted with the functioning of the institution before fresh elections are held. The practice of holding elections once in three years had previously been observed in Madras. However, under the new act, elections have to be held by rotation for one-third of the directors each year. The advantages of holding elections once in three years are that expenses are kept at a minimum and the board of directors has time to learn the working of the bank. This practice was favoured by representatives of cooperative institutions in Madras. In other states, however, the balance of opinion lay in favour of election by rotation. In this case, as only one-third of the directors is to be elected each year, expenses are not as high as in electing the whole board each year. Each director has a period of three years to get acquainted with the working of the society and new directors have the advantage of the experience of those elected in the previous years. As such, a certain amount of stability and continuity is maintained. We would, on the whole, prefer this practice and in any case would suggest that elections of the whole board of directors each year need not be called.

3.23 There should be a regular election code under the state cooperative act or the bye-laws of a society as in Maharashtra and Madras. This should provide for nominations and voting by secret ballot. Such a position does not obtain in all states at present. In one urban cooperative bank we found that nominations were announced at the general body meeting, immediately followed by voting by show of hands. If nominations could have been called for and circulated earlier, it would encourage members to attend the meetings. Voting by secret ballot should be the right of all members in a democratic institution.

3.24 It was observed that in a large number of institutions the same persons or set of persons were elected to the ~~post~~ of directors from term to term. It was suggested that an effective and practical method of ensuring that new directors are elected would be to insert a clause in the bye-laws preventing a person from standing for elections for more than one or two consecutive terms. We must, however, point out that one common factor in the institutions enjoying prosperity over a period of time was the availability of the continuous efforts and services of a few dedicated and capable workers. The loss of the services of such persons for even short terms, particularly in the initial stages of an institution, may not be compensated immediately by the emergence of new leadership. We would therefore not recommend any change in the bye-laws. Some institutions visited by us have established a tradition whereby directors do not stand for more than one or two terms consecutively, and this practice could be considered by such institutions as may find it desirable. Basically however this is a problem to be tackled through the education of members.

3.25 The urban cooperative bank deals with large deposits from members as well as non-members and the security of such funds is of crucial importance. Certain suggestions were made

with regard to the manner in which it may be ensured that the board of directors safeguard the interests of the depositors. A view was expressed that additional votes according to a prescribed formula may be given to member depositors. This was examined by us carefully but we feel that on the whole it would not be in conformity with cooperative principles. It was also suggested that urban cooperative banks may give representation to the depositors on the board of directors so that the board may have members who have a direct stake in the funds of the institution. The disadvantage in this system would be the creation of conflicting interests in the board of the depositors and the shareholders which may not be desirable. As a long term solution all efforts should be made to enroll depositors as members so that they may have an equal voice in electing a board in which they may have confidence.

3.26 An enlightened board of directors has an important place in the development of urban cooperative banks. The educational programmes mentioned in the case of members may be extended to directors, e.g., literature on urban cooperative banks should be made available, visits to well-run urban cooperative banks ~~should~~ be arranged and regular meetings may be held at which **the directors** would have to face the members. In addition the national or the state cooperative unions may consider holding periodical seminars or discussions at which directors of different institutions may meet and exchange views.

RESOURCES

3.27 Resources available to cooperative banks can be classified broadly into owned funds and borrowed funds. Owned funds consist of paid-up share capital and accumulated

reserves created out of appropriations from profits. Borrowed funds consist mainly of the different types of deposits received from members and non-members and borrowings from central cooperative banks. The data regarding resources in so far as available from different states is given below:-

Table 3.2 : Resources of urban cooperative banks

State	1960-61 (Rupees in lakhs)			
	Owned funds	Deposits	Other bor- rowings.	Working capital
Madhya Pradesh.	18.74	55.36	2.62	76.72
Madras.	163.79	777.41	127.37	1068.57
Maharashtra.	511.00	2098.00	195.00	2804.00
Orissa.	17.60	57.93	1.17	76.70
Punjab.	9.42	10.84	7.17	27.43
Rajasthan.	3.94	11.89	3.09	18.92
Pondicherry.	1.90	6.66	3.63	12.19

State	1961-62 (Rupees in lakhs)			
	Owned Funds.	Deposits.	Other bor- rowings.	Working Capital
Madhya Pradesh.	21.66	62.42	1.97	86.05
Madras.	179.51	937.67	140.67	1257.35
Maharashtra.	588.00	2103.00	454.00	3145.00
Orissa.	18.81	64.17	0.64	83.62
Punjab.	9.94	13.38	6.85	29.67
Rajasthan.	4.33	13.63	2.96	20.92
Pondicherry.	2.00	7.33	1.48	10.81

3.28 Owned funds

3.28 The liability of members of urban cooperative banks is generally limited which is necessary in view of the fact that the membership is large, dispersed and diversified and mutual knowledge and cohesion cannot exist to the same extent as in villages. They, therefore, find it necessary to build up substantive owned funds which provide the chief security for outside borrowings. The percentage of owned funds to working capital varies from 32 per cent in Punjab to 14 per cent in Madras. The maximum borrowing power of an urban cooperative bank, which is the limit for its deposits and other borrowings, is fixed as a multiple of its owned funds under the rules framed under the cooperative societies act or its own bylaws. Generally, the multiple varies from 5 to 12 times the paid up capital and the statutory reserve funds depending upon the financial position of the institutions in different states. It was generally reported that the borrowing power of urban cooperative banks was adequate to meet the requirements of their working capital.

3.29 The expansion of the activities of urban cooperative banks will necessarily involve strengthening their owned funds position; strengthening of the statutory reserve fund cannot, however, be achieved rapidly as this fund is constituted by setting apart a fixed portion of the profits earned by the banks annually. Hence, it is essential for the strengthening of the owned funds position to collect more share capital. We have recommended earlier that an urban cooperative bank should have a minimum paid up share capital of Rs.50,000. Many well established urban cooperative banks already have paid up share capital exceeding this amount. However, other urban cooperative banks have to be brought up to the requisite level. With the opening of new urban cooperative banks in all towns and municipalities as recommended by us, increasing efforts will have to be made to expand membership and to secure adequate share capital.

3.30 The value of shares should be reasonable and within the means of the majority of share holders. It was observed that the value of shares issued by urban cooperative banks varies from Rs.10 to Rs.100. Rs.10 per share appears to us adequate from the point of meeting the expenses of the banks and also ^{low} enough to be within the means of members. It may be difficult for persons to purchase shares of higher value. Where necessary, provision may be made for share money to be paid in instalments.

3.31 The bylaws of most urban cooperative banks provide that every borrowing member must contribute to the share capital of the bank in a definite proportion, which is normally 10 per cent of the amount borrowed in case of personal loans. This is also conducive to the building up of owned funds.

3.32 The initial impression of the group was that as the members of the urban cooperative banks have a comparatively good financial position and judging from the experience of such urban cooperative banks in the country as constitute models of the type, no financial assistance from the state should be required. It was, however, pointed out to us by state governments and representatives of the cooperative movement that large areas exist even in states where other sectors of cooperation have developed considerably but where similar progress on the part of urban cooperative banks has not been possible due largely to the lack of provision for assistance or targets for organisation in the state plans. We have also stressed the need to cover every town and municipality including new industrial townships and block headquarters by urban cooperative banks. This will require special efforts on the part of the promotional agencies particularly in areas where the level of income is low or where strong competition from other banking institutions already exists. We will also discuss the need for the diversification of activities of urban cooperative banks particularly

in the case of lendings for industrial purposes, for which strengthening of the capital of the society will become essent

3.33 In view of these considerations, we would recommend t in the case of new banks which may find it difficult to collec share capital of the order of Rs.50,000 in the first few years or ~~or~~ in the case of such urban cooperative Banks requir immediate strengthening of their owned funds position, provisi should be made for state participation in the share casital. would like to stress however that the state should participate only where there is a case of ~~real~~ need and as an exceptional measure and not as a matter of course. The question of share capital participation by the state in credit institutions has been examined at length in the Rural Credit Survey Report and the Committee on Cooperative Credit and the procedure of state participation in societies of different types has been establis in different states. We would draw attention to the following procedures which may be adopted with regard to the urban cooperative banks : (a) the state should participate on not less than a matching basis with the share capital collected by the members, (b) the share capital contributed by the state should be retire within a specified period and (c) the state may, to safeguard financial interests in the institution, nominate upto three directors, but not exceeding 1/3rd of the total number of directors on the board. For this purpose, nominees may be chosen from amongst competent non-officials rather than officers from the cooperative department.

3.34 In view of the requirements of such institutions, we recommend that as far as the total amount of share capital to be contributed is concerned, the amount may be upto Rs.25,000 on a matching basis in order to make up a minimum level of share capital of Rs.50,000 per bank as early as possible. The state

3.35 In some states, the bylaws of urban cooperative banks stipulate that out of profits earned by them, a certain portion, generally not less than 25 per cent, should be appropriated to the statutory reserve fund every year. We would recommend that all urban cooperative banks, when they receive deposits on current account, should carry to the reserve fund at least 1/4th of their net profits till it equals the paid up share capital and thereafter it may be less.

3.36 We would also commend the recommendation of the Report on the Survey of Urban Cooperative Banks, 1957-58, that specific provision in the bylaws of urban cooperative banks in all states should be made for creating a reserve for bad and doubtful debts and contributing to it every year. We would, however, suggest that, in order to maintain confidence, the provision for bad and doubtful debts need not be disclosed and, as in institutions within the purview of the Banking Companies Act, should be made before arriving at net profits and not out of net profits. The narrative in the income side in the profit and loss account may read thus:

"Income (less provision made during the year for bad and doubtful debts and other usual or necessary provisions)."

3.37 Members of the urban cooperative banks may voluntarily agree not to take any dividend for two or three years so that the resources may be increased. Alternatively, they may agree to convert their dividend as additional share capital. In state partnered institutions, the state would not get any dividend on its capital if no dividend is declared or if dividend is declared the amount may not be drawn and the institution may be permitted to utilise it for the reserves.

3.38 Deposits

The table indicating the resources position of urban cooperative banks (table 3.2) reveals that deposits are the major source of working capital to such institutions. The percentage of deposits to working capital works out, on an average, at territories about 6% in the representative states and union/~~states~~ for which information is available and varies from 45 per cent in Punjab to to 77 per cent in Orissa.

3.39 The main object of urban cooperative banks being the promotion of thrift among members, efforts are primarily directed towards tapping their savings. The growing confidence of the public in these institutions has also enabled them to be the custodians of the savings of non-members. In Madras, for instance, deposits of non-members were Rs.676.48 lakhs as compared to Rs.261.19 lakhs from members in 1961-62.

3.40 Urban cooperative banks generally accept current deposits, savings deposits and fixed deposits for different periods ranging from six months to about 3 years. As a rule, fixed deposits form the major portion of the total deposits collected by them, the percentage of savings deposits to the total deposits also being high in a few states. With the increasing competition of commercial banks and different schemes for mopping up the savings of the people, more intensive efforts will be required by urban cooperative banks to attract deposits. From an examination of the certain practices followed by urban banks, we would make the following suggestions in this regard:-

(a) While it is only natural for individuals to become members of urban cooperative banks for availing themselves of credit facilities, efforts are necessary to promote thrift among

them and attract large deposits from them. This requires a sustained campaign to educate the members. They should be persuaded to avoid waste, cut down their expenditure on cere-monials etc. and contribute their savings to the cooperative;

(b) several cooperative banks provide facilities of withdrawal of savings deposits by cheque. There are also many special schemes in operation for mobilising savings in some banks. Urban cooperative banks should diversify the schemes in order to attract deposits and popularise them. In addition to accepting current deposits, savings deposits and fixed deposits for different periods, special savings schemes such as home savings, safe deposits may be introduced. In the home savings deposits scheme, the depositor is supplied with a small locked box or safe in which his small savings can be deposited. When the amount is sizable the depositor brings the safe to the urban cooperative bank and it is opened in his presence and the collections are credited to his home savings deposit account. In Andhra Pradesh and Madras, certain banks have adopted a scheme for day deposits under which a member can deposit fixed sums of 25 nP. or 50 nP or a rupee every day. The deposits run for a definite period and at the end of that period the total amount collected with interest on daily instalments is refunded to the member or adjusted towards loan due, if any. Urban cooperative banks may also accept provident fund deposits, security deposits from the staff and recurring deposits;

(c) the attraction of business by urban cooperative banks depends to a certain extent on the locality of its office and on its building. A good building with modern arrangements for business activities e.g. well ventilated banking hall, good counter, seating arrangements, meeting hall, safe deposit vault etc. will go a long way to enhance the prestige of the institution and promote confidence in its depositors. The state

- governments should, as far as possible, help urban cooperative banks in securing land for constructing or expanding their buildings;

(d) the depositors would naturally like to have the maximum return on their deposits. Urban cooperative banks, therefore, have to offer competitive rates of interest on deposits in addition to offering such facilities as commercial banks offer to their clients. Generally, the rates offered by urban banks compare favourably with those offered by commercial banks. Where necessary, urban cooperative banks may revise their interest rates to bring them in line with the interest rates paid by commercial banks;

(e) the closer intimacy an urban cooperative bank has with its members should enable it to provide such facilities as may be of convenience to them. For instance, some urban cooperative banks open their office before and after the normal office hours to enable persons to go to the bank at hours which may suit them. The Sarswat Cooperative Bank, Bombay, has set aside a special time for women members. In the Mercantile Cooperative Bank, Bombay, arrangements have been made to receive valuables and cash in the safedeposit vault during the night;

(f) we had earlier mentioned the need for satisfying depositors that their deposits would be secure. The possibility of giving extra votes to depositors or representation to depositors on the board of directors was examined in this connection. We would, however, reiterate that it would be more appropriate to make attempts to enroll depositors as members and give them an equal voice in the management;

(g) We have also recommended that the state should participate in the share capital of urban cooperative banks in exceptional cases and for limited periods. This would have the added advantage of inspiring confidence among depositors in the initial stages;

(h) a scheme for insuring deposits with commercial banks has recently been introduced. It is understood that the government of Madras have a scheme for guaranteeing the deposits of district cooperative banks which has been very helpful. Urban cooperative banks, however, may be at a disadvantage vis-a-vis commercial banks. We recommend that the question of insuring or guaranteeing deposits of urban cooperative banks may be considered and necessary measures taken to eliminate competition with commercial banks;

(i) well-run urban cooperative banks should be allowed to receive the investment of surplus funds of municipalities, local bodies, educational institutions etc. and restrictions in this regard, if any, should be removed; and

(j) commercial banks are today opening branches in almost all urban and semi urban areas including those areas where urban cooperative banks have done pioneering work. Though a fair amount of competition cannot and should not be ruled out we would suggest that while considering permitting commercial banks to open branches, the capacity of the urban cooperative bank in the area or its scope for development should be given due consideration.

3.41 Borrowings

The borrowings of urban cooperative banks from other financing agencies are almost negligible as compared to agricultural credit societies. Of the total resources, it appears that borrowings of urban banks from other financing agencies varies from about 23 per cent in Punjab to a little less than one per cent in Orissa. Even in the case of the cooperatively advanced states of Madras and Maharashtra, the borrowing from financing agencies are of the order of 11 per cent and 14 percent respectively of the total resources.

3.42 The expansion of the activities of the urban cooperative banks will necessarily depend upon their ability to obtain loans and cash credits from other financing agencies. Every agency, however strong its financial resources, requires a balancing centre for the purpose of absorbing its surplus and coming to its rescue in time of need. The cooperative movement in the country has developed a structure according to which the district cooperative bank is the financing agency for all primary cooperative institutions requiring short and medium term credit. Urban cooperative banks, by and large, at least in the cooperatively developed states, are affiliated to the central financing agencies and look to it for support. In this respect, the following suggestions have been received by us from certain representatives of the cooperative movement:

(a) urban cooperative banks may be directly affiliated to the apex cooperative bank so that they may be able to borrow at a cheaper rate of interest; and

(b) urban cooperative banks may be allowed to form their own apex cooperative banks, which would finance them, as the central financial agencies are preoccupied with the demands of primary agricultural credit societies.

3.43 In this respect, we would support the majority view that, as a rule, urban cooperative banks should be affiliated to the central cooperative banks except in areas where there are no central cooperative banks, as in Bombay and Calcutta, where they may be directly linked with the apex banks. A certain amount of flexibility is, however, necessary due to the particular conditions of a locality and it may be permissible for an urban cooperative bank which may not get facilities from the district bank, and if it is practical to be affiliated directly with the apex cooperative bank. As a rule, however, the present disciplined cooperative banking structure should

not be disturbed and urban cooperative banks should not be directly affiliated with the apex banks. It is doubtful if it would be possible for the apex banks, in the first place, to deal with so many institutions directly and, in the second, to give cheaper credit than the central financing agencies as they would have to go in for additional arrangements for supervision etc. The question of a separate banking structure for urban cooperative banks also does not appear to be practical or advisable at this stage of development. Under the accepted system, the surplus resources of the cooperative credit movement are available for grant of agricultural finance, thereby contributing to the development of the rural economy of the country. The formation of one more agency for specifically catering to the requirements of urban cooperatives banks will amount to diffusion of funds available for the cooperative movement and may also create a dearth of honorary and experienced workers to man the various institutions.

3.44 While recommending that urban cooperative banks should be affiliated to the central financing agencies, we would also recommend that the latter should recognise the claims of urban cooperative banks as legitimate demands on them and it should be ensured that such banks are given the occasional loans and overdrafts required, from time to time. For this purpose, we would suggest that a special section should be created in the central financing agencies and the apex cooperative banks to safeguard the interests of the non-agricultural credit cooperative sector. and representation should be given to this sector in the board of directors. Such sections should also be specifically charged with the development of non-agricultural credit societies.

3.45 In addition, as demand from the urban cooperative sector together with demands of the agricultural sector as well as cooperatives of different types such as consumers cooperatives, labour contract and construction societies etc. increase, it will

be necessary for the central financing agencies to be assisted for this purpose. The Reserve Bank of India or the State Bank of India or the Life Insurance Corporation may, therefore, have to step in and extend necessary credit facilities at reasonable rates of interest on such security as may be agreed upon.

3.46 We had, in this connection, discussions with the Deputy Governor of the Reserve Bank of India and the representatives of the State Bank of India and the Life Insurance Corporation. The group explained the circumstances under which urban cooperative banks do not get adequate accommodation from the central cooperative financing agencies in times of need. The owned funds of these central financing agencies are heavily drawn upon by agricultural credit organisations which is also a real necessity. In these circumstances, arrangements to meet the needs of the urban banks have to be made. The group, therefore, made a strong representation to the Reserve Bank of India, the State Bank of India and the Life Insurance Corporation and in the discussions they were inclined to agree that these requirements would must be met with and that they certainly consider the manner and the method by which the needs of the urban banks could be met. We recommend strongly that the credit requirements of the urban banks should be met with by the national organisations at reasonable rates of interest through the regular financing agencies. We would also recommend that the processes should be made as simple as possible.

LOAN OPERATIONS

3.47 We have indicated in table No.3.2 the total resources at the disposal of the urban cooperative banks as on 30.6.1961 and 30.6.1962 in respect of a few states. These resources in their entirety were not available for loan operations. In the

First instance, a part of the share capital collected by the bank should have been invested in the agencies from which they borrowed funds in the form of share capital. Secondly, the statutory reserve funds of urban cooperative banks have, as a rule, to be invested outside their business. Thirdly, the banks have to maintain fluid resources as cover for deposits raised by them. This indicates that only a portion of the resources of urban cooperative banks is actually available for their loan operations. While it is not possible to indicate exactly what part of the resources of the urban cooperative banks as on 30.6.62 was actually available to them for advancing loans, it will be seen that the loans outstanding as due to the urban cooperative banks on 30.6.62 formed about 60 to 70 per cent of their resources as on that date except in the case of Rajasthan. Details regarding loans advanced, loans outstanding and overdues are given in the table below :

Table 3.3 : Loan operations of urban cooperative banks

State	Working capital	Advances	Out-standings	Overdues	
				1960-61	(Rs. in lakhs)
Madhya Pradesh	76.72	41.30	50.54		11.12
Madras	1068.57	961.69	818.93		45.35
Maharashtra	2804.00	2815.00	1672.00		133.00
Orissa	78.70	38.50	50.42		14.89
Punjab	27.43	14.94	19.23		5.98
Rajasthan	18.92	13.13	8.51		0.79
Pondicherry	12.19	16.80	8.69		1.01

State	1961-62		(Rs. in lakhs)	
	Working capital	Ad- vances	Out- stgs.	Over- dues
Madhya Pradesh	26.05	54.07	57.99	11.15
Madras	1257.85	995.68	808.00	55.11
Maharashtra	3145.00	3365.00	1985.00	126.00
Orissa	83.62	46.98	53.23	15.00
Punjab	29.67	19.55	19.90	6.50
Rajasthan	20.92	13.05	9.18	1.06
Pondicherry	10.61	17.80	8.17	0.48

3.48 Loaning operations of urban cooperative banks consist of granting fixed loans or cash credit loans to their members against the security of mortgage of unencumbered immoveable property or on the surety of one or more persons who are also members or on the pledge of agricultural produce, mercantile or industrial goods, gold and silver ornaments, government and semi government securities or on the security of fixed deposits and insurance policies

3.49 Generally, the following purposes are considered eligible for grant of loans by urban cooperative banks:

1. Purchase of seeds, manure or agricultural implements and other cultivation expenses;
2. Purchase of cattle and fodder;
3. Manufacture or purchase of country carts;
4. Payment of land-revenue;
5. Improvement and purchase of land;
6. Building or repairing of dwelling houses or cattle sheds;
7. Purchase of implements or materials required by the artisans for their industry

8. Petty trade and industry;
9. Payment of prior dues;
10. Purchase of foodgrains and other necessities of life;
11. Ceremonial expenses;
12. Educational expenses;
13. Purchase of National Savings Certificates and national plan bonds marketable securities etc;
14. Payment of insurance premium;
15. Medical expenses;
16. Housing.

50 It will be noticed that some of the above purposes relate to agricultural production. This may be due to the fact that in some states, like Madras and Kerala, certain urban cooperative banks have extended their area of operation to villages around their headquarters though situated in urban and semi urban areas. It may also be partly due to the fact that membership of these banks includes those cultivators who reside in urban areas. Partly, this is a result of the same bylaws being used for primary agricultural credit cooperatives as also for cooperatives in the non-agricultural credit sector. Where necessary, byelaws should be amended to provide for the requirements of urban and semi urban areas e.g. small scale industries and housing etc.

5.51 The bylaws of the urban cooperative banks usually contain a provision to the effect that no member should at any time be indebted to it by way of principal to the extent of more than a specified amount on personal security or on the mortgage of unencumbered immovable property. Subject to the maximum limit fixed for an individual member's borrowings from the urban bank, the member's borrowings are generally linked

eligible for loan against personal security upto five to ten times the share capital paid by him and for a loan against the mortgage of immoveable property upto 10 to 20 times the share capital paid by him. If a member is a salary earner he is generally eligible for a loan not exceeding about four times the salary.

3.52 The advantages of cash credit loans to members of urban cooperative banks and particularly to the small merchants, traders, artisans, industrialists or businessmen, need no emphasis. The cash credit limit is sanctioned to a member with due regard to his status, securities offered by him and his specific requirements. The bylaws specify the limit upto which a member can be accommodated by way of cash credit. The cash credit is given for a year and application has to be made in time for renewing the cash credit limit. The limit of cash credit and the security, therefore, are expected to be examined every year and revised if necessary.

3.53 The bylaws specify the rate of interest that can be charged per annum both on fixed loans and on cash credits. The average lending rate is normally about 7 per cent though it may vary from 6 to 8 per cent. This is dependent upon the average borrowing rate which can vary from 3 to 4 per cent. The instalments, the period of the loans and other terms and conditions are decided by the board of directors subject to the approval of the Registrar of Cooperative Societies.

3.54 In the case of mortgage loans, urban banks are required to obtain encumbrance certificates for a period of not less than 12 years before accepting the securities. Annual revaluation of immoveable properties which are accepted as securities has to be done and in the case of any depreciation in value the parties are

required to furnish additional security or repay the loan to the necessary extent so that the balance of the loan will not be more than the prescribed percentage of the value of the security.

3.55 The maximum period for which loans are advanced by urban cooperative banks is generally three years. However, with the permission of the Registrar of Cooperative Societies they can advance loans for periods exceeding 3 years but usually not exceeding five years. The question of increasing the maximum period of loans of urban cooperative banks was examined by the Committee on Cooperation in Madras in 1955-56. The Committee observed that there were two aspects to this question viz. (a) whether the urban banks have resources to issue such long term loans and (b) whether it is necessary for them to issue loans for long periods. The Committee pointed out that deposits of urban banks should be usually for periods upto three years and generally urban banks do not command substantial longterm advances which could be utilized as loans for periods exceeding five years. The Committee added that loans for such long periods are said to be necessary for purchase and construction of dwelling houses and for enabling persons with a meagre repaying capacity to borrow from urban cooperative banks.

In this respect, their views were as follows:

"So far as construction of new houses is concerned, the members can avail themselves of the facilities offered by cooperative building societies and they exist in almost all urban and semi urban areas. Generally speaking, members of urban banks are small traders, artisans, professional classes, etc. and they should be able to repay the loan in instalments from the income realized by them out of the use to which the loan has been put unless it be for other than productive purposes. It is not desirable to encourage loans for the latter purposes. Nor can the urban banks advance loans for heavy capital expenditure as they are intended normally to supply only working capital for small industrialists, artisans etc.

We consider, therefore, that urban banks should not normally lend for periods exceeding five years. When however the surplus long term resources of any urban bank justify the grant of such loans, it can move the Registrar to address Government for the relaxation of the relevant rule."

We feel that the views of this committee are sound in the present context and may be observed.

3.56 Loans being based on the security which the borrower can offer, the banks do not by and large take interest in the genuineness of the purpose for which loans are nor do they take steps to ensure that the loans are used for the stated purpose. This practice does not only lead to utilisation of the loans for unproductive purposes thereby blocking up funds in the form of overdues, but also vitiates the cooperative principles of thrift. We would, therefore, suggest that urban cooperative banks should go into the purposes for which the loans are required and scrutinise their genuineness and, where possible, help the member to reduce his borrowings. For this task, it may be advisable to constitute a committee of members who could come from different areas or constituencies and may have more personal knowledge of the borrowing members and be able to enquire into the reasons for borrowings tactfully and discreetly. This may be embarrassing for members of the board of directors. With the permission of the member, the society may also consider paying directly the creditors of the member for which the amount is required, i.e. to the trader, to the doctor for medical expenses, to the money lender for old debts, etc. as far as practical.

3.57 We would also make a plea that the lending policy of urban banks should be more imaginative and in keeping with the general programmes for economic development. In other words, it should be production-oriented and related to the repaying capacity of the borrower rather than the security. In this connection, attention may be drawn to the survey of urban cooperative

banks conducted in 1957-58 by the Reserve Bank of India with the main object of assessing the role of urban banks in the financing of small scale industries. It was found from the purpose-wise analysis of advances granted in 1957-58 that only in the states of Bombay, Kerala, Madras, Mysore, Punjab, West Bengal and Delhi urban cooperative banks granted advances for industrial purposes. Outstanding advances as at the end of 1957-58 under 'industry' were also reported by the urban banks in the above mentioned states only. Their proportion to the total outstanding advances being 20.80 per cent in West Bengal, as compared to 3.4 per cent in Bombay and Madras and 1.5 per cent in Punjab and Delhi. Outstanding advances for industrial purposes in Kerala and Mysore formed less than one per cent of the total outstanding advances. The proportion for all India worked out to 2.9%. The industries to which urban banks had granted advances were 'minor engineering' and 'chemicals' in Bombay, Madras and West Bengal and handloom weaving in Bombay, Kerala and Madras. In Bombay, urban banks had granted sizable advances in 1957-58 to minor engineering concerns, the average amount per bank being Rs. 51,000.

3.58 We do not have any dependable data regarding the present position but we do not have reasons to expect that it has improved though the role of urban cooperative banks in financing individual members engaged in small scale industries has been examined by various committees. The Committee on Cooperation in Madras, 1939-40, observed that "There is a feeling that urban banks have not done much to encourage handicrafts and cottage industries. While we realize that the existence of urban banks should not stand in the way of societies formed for separate interests such as societies for crafts, arts and small scale or cottage industries, we consider that where there are no such separate organisations, urban banks should be entrusted

with the duties of organising and financing, with ~~citizen~~, artisan classes and craftsmen as well as persons employed on a small scale in other industrial occupations in order to save them from exclusion by middlemen and moneylenders and to promote their economic interests and standard of living."

3.59 The Cooperative Planning Committee, 1946, state that the cooperative urban bank, by establishing personal and intimate relationship with the people like carpenters, blacksmiths, mechanics etc. who required credit for setting up their own business in small workshops, qualified as the most suitable agencies for meeting their credit needs.

3.60 A certain amount of calculated risk may have to be taken by urban cooperative banks in expanding their loan operations for industrial purposes based on repaying capacity rather than security. In this connection, we may invite attention to the scheme for guaranteeing bank loans to small scale industries which has come into force from July 1, 1960, and which covers loans made by licensed scheduled banks and banks which do not require licence as well as state cooperative banks and state financial corporations in selected districts. Banks other than those selected above may also avail of the guaranteed facilities in respect of loans in which a selected bank participates to the extent of not less than 25% of the loan amount. If loans made by urban cooperative banks are to be brought within the scope of this scheme, either the state cooperative bank or the State Bank of India will have to participate in the loans to the required extent. This would depend upon the possibility of linking the urban banks with the state cooperative banks or the State Bank of India which requires careful consideration. In the absence of the scheme having been availed of by urban banks to an appreciable extent it is difficult to say how far it will be of advantage to them. However, state

governments should select certain urban cooperative banks and try the scheme on a pilot basis

3.61 The sub committee set up by the Small Scale Industries Board in 1956 and the Small Scale Industries Board at its 9th meeting held in 1957 also examined a scheme for channeling government loans for small scale industries through urban cooperative banks. The scheme has recently been reconsidered by the Second Working Group on Industrial Cooperatives and their recommendations in this regard are given below:-

"The scheme for utilizing the services of urban cooperative banks be reconsidered and a revised scheme worked out for utilising the agency of new or existing urban cooperative banks for industrial loans on a pilot scale. Up to six such banks may be selected/organised in each state in towns which have not got facilities of industrial cooperative banks of mixed type. A bank selected under the scheme should have a minimum paid up capital of Rs.50,000, government should assist those banks whose capital is below this figure by meeting the difference by share participation. The guarantee referred to in paragraph 126 should be extended to these banks. They should be given managerial grants by the Government to enable them to appoint a special deputy manager, an accountant and an inspector/industrial work. When it is intended to assist them with government funds these should be made available through central financing agencies and not directly. The latter should make the required funds available to them at a rate not higher than the Reserve Bank of India rate viz. $4\frac{1}{2}\%$. Loans should be made available by those banks to their members at a rate of interest not much above that charged by the State Bank of India i.e. at about $6\frac{1}{2}\%$. A subsidy of 3 to $3\frac{1}{2}\%$ be paid by government on funds advanced by the central financing agencies to urban banks for industrial purposes. Where the margin of 2% or so available to urban banks is found to be inadequate, the central financing agencies may consider the granting of a more favourable rate than $4\frac{1}{2}\%$ or the urban cooperative banks may be permitted to charge a somewhat higher rate of interest to the borrowing units. In areas where selection cannot be made out of the existing urban cooperative banks, new banks may be organised for the purpose. The results of the pilot experiment may be reviewed at the end of 3 years." **

It may also be advantageous to channel government loans to small scale industries through urban cooperative banks. The question will be considered.

for

* From the Summary of Recommendations of the Report of the Second Working Group on Industrial Cooperatives.

3.62 As at present, the scheme has not been implemented in the states. We would recommend that early action should be taken to implement the scheme on a pilot basis so that further extension may be considered.

3.63 Urban cooperative banks should also adopt a sufficiently diversified loaning system suiting the needs of different categories of members. While loans to small industries and small entrepreneurs represents an important line of future development, there is a further variety of loaning facilities which may be developed e.g. loans upto limited amounts on personal sureties, larger loans on the mortgage of house and other real property, on the security of gold and ornaments and negotiable instruments like government securities, land mortgage bank debentures and life insurance policies. While the demands on the banks are bound to be mainly for consumption purposes and family needs, increasing emphasis may be laid on loans connected with purposes which promote the economic efficiency and well being of the members, e.g. education, technical training, acquiring of durable consumer goods and business activities

LONG TERM LOANS

3.64 For the provision of long term loans, the state of Madras has organised a separate structure consisting of a central cooperative house mortgage bank with primary house mortgage banks affiliated to it.

3.65 The history of the organisation of the central house mortgage bank is that, consequent on the nationalisation of life insurance in 1956, the South India Cooperative Insurance Society, which was providing long term credit to the then existing five primary cooperative house mortgage banks in the state, could not continue to do so. The state government therefore accepted the proposals of the Registrar of Cooperative Societies, Madras, to set up a central cooperative house mortgage bank for financing the existing primary house mortgage banks and the 20 primary house mortgage banks proposed to be newly organised in important municipal towns in the state.

3.66 At the instance of the state government, the Life Insurance Corporation agreed to grant a loan of Rs. 20 lakhs to the bank at 5 per cent interest and repayable in 20 years. It subsequently sanctioned a further loan of Rs. 40 lakhs repayable in 15 years at 6 per cent interest. The LIC stipulated, among other things, the following conditions for the grant of loans:-

- (a) the loan will carry interest at 2 per cent per annum above the bank rate ruling at the time of drawing each instalment of loan subject to a minimum of 6 per cent;
- (b) the loan should be guaranteed by the government both as to principal and interest;
- (c) the fire and other general insurance of all properties mortgaged to the primary house mortgage banks, which constitute the security for loans advanced by them as well as by the central bank Corporation shall be placed with the Oriental Fire and General Insurance Co. Ltd. including loans advanced renewal of the existing insurances on their expiry;
- (d) the minimum instalment of the loan to be drawn at any one time by the central bank will be Rs. 5 lakhs, and

(e) the bank shall give one month's notice for drawing of any instalment of loan, which notice may be waived only at the option of the LIC.

3.67 Loans are granted to affiliated primary house mortgage banks on the equitable mortgage of the mortgage deeds and the titled deeds relating to the properties taken by them from their members as security for the loans. The maximum period of repayment of loans is 15 years. The lending rate of the bank is now 7½ per cent.

3.68 Including the five old primary house mortgage banks, there are at present 31 primary house mortgage banks in the state. They are all affiliated with the central house mortgage bank. Besides, borrowing funds from the central house mortgage bank, the primary house mortgage banks may receive fixed deposits for periods not less than five years. None of the new primary banks has so far raised fixed deposits. The primary banks give loans for the following purposes:-

- (a) redemption of mortgages of houses;
- (b) additions and improvements or alterations to existing houses which are to add to their value;
- (c) liquidation of prior debts which, in the opinion of the board of directors, cannot be cleared except with the help of a long term loan;
- (d) construction of new houses.

The individual maximum borrowing limit is normally Rs. 5,000 in the new primary banks and may go up to Rs. 7,500 at present. Subject to this maximum a member is eligible for a loan not exceeding 10 times his share capital. The loans are given on the security of houses upto 30 per cent of the estimated market value hereof. The rate of interest charged on the loan is now 3 per cent. The maximum period of repayment of loans in the new primary banks is 15 years.

purchase of a house
in special cases where
such purchases will be
of advantage to the
borrower or of additional
utility to an
existing house
belonging to him and

3.69 The need for long term loans for such purposes as those served by the primary house mortgage banks in the state of Madras cannot be denied. We were however informed that several of the banks were finding it difficult to work at a profit,

their business being limited,
partly as building is held up due to difficulty in obtaining
sites or building materials and, partly, because the rate of
interest is considered high.

3.70 While it would be desirable that other states should also make similar arrangements for meeting requirements of long term loans in urban and semi-urban areas, we would suggest that the urban cooperative banks may open a separate section for giving long term loans on the security of houses rather than creating a separate structure for the purpose, where there is a demand for such loans. This would help in keeping down costs.

3.71 In order to raise long term resources, it would be necessary to obtain long term deposits. In addition, the house mortgage banks in Madras, and similar institutions when set up in other states, will require to receive finances from outside. The LIC may therefore continue to give loans to such institutions on agreed conditions. It may be examined if the rate of interest could be more favourable.

BANKING FACILITIES AND OTHER ACTIVITIES

3.72 Apart from advancing loans to their members, most urban cooperative banks provide them with various other banking facilities. Several provide the facility of withdrawal of deposits by cheques and arrange for the remittance of funds from one centre to another. Some urban cooperative banks collect money due to their customers such as pay and pensions of servants of government and local bodies and undertake regular payment of insurance premia, subscriptions, rent and periodical other payments and the safe custody of securities, jewels and other valuables of members as well as non-members. Certain urban banks discount bills and hundis and a few run chit funds. Efforts are necessary on the part of the urban cooperative banks to diversify their activities and to develop their business on the above lines to the extent possible without undue risk.

3.73 It is understood that at present only commercial banks are licensed to deal in foreign exchange. Urban

cooperative banks have not been permitted to undertake foreign exchange business. Certain urban cooperative banks are however catering to the financial requirements of small traders and artisans who are members of the mercantile community and it is therefore essential for them to make complete banking facilities available to such members including making arrangements for foreign exchange requirements. Some banks are already doing this through the agency of commercial banks but they do not get any benefit in this respect and the clients of urban cooperative banks are required to pay double commission. It is therefore recommended that the Reserve Bank of India after proper scrutiny, may also either give licences to suitable urban cooperative banks to deal in foreign exchange or allow commercial banks to share the commission with urban cooperative banks so that their clients of the latter are not put to disadvantage.

3.74 Due to the abnormal situation which prevailed during the second world war, such as the shortage of essential goods, some urban cooperative banks also took up non-credit activities such as the purchase and distribution of controlled commodities and other essential articles for members and non-members. Such activities are undertaken at present by only very few urban cooperative banks. The combination of trading and banking is generally not conducive to the financial stability of urban banks and should be discouraged.

CASH IN HAND, BALANCES WITH OTHER BANKS, INVESTMENTS ETC.

3.75 The proportion of cash balances of urban cooperative banks to their working capital varies considerably from state to state. The Registrar of Cooperative Societies in each state is empowered to fix the maximum limits upto which urban cooperative banks can keep cash in hand or deposit the cash with other banks. There is need to prescribe uniform standards in this regard and enforce them strictly in the case of all urban cooperative banks. It is also necessary to make proper arrangements for the safe custody of cash.

3.76 Besides utilisation of the available resources for giving various types of advances to members and keeping a part of them as cash balances, urban cooperative banks generally invest a part of their resources in government and other trustee securities and in fixed deposits with other banks. Most of the urban cooperative banks also have other assets such as land and buildings. The board of directors of an urban cooperative bank has the power to decide the mode of investment of surplus funds subject to the approval of the Registrar of Cooperative Societies. The object of this approval is to ensure that funds of the urban cooperative bank are safe and are not invested in speculative securities. The question of investment of surplus funds of urban cooperative banks has been examined on several occasions.

3.77 The Joint Reorganisation Report on the Cooperative Movement in Bombay submitted by the Bhansali Mehta Committee in October 1937 recommended that all societies which obtain any portion of their working capital by deposits should invest their entire reserve fund or an amount equal to deposit liabilities, whichever be less, under investments permitted under Section 20 of the Indian Trusts Act, except that no investment should be in immovable property without the prior sanction of the Registrar. The Cooperative Planning Committee, 1946, observed that urban banks with a paid up capital and reserve of Rs. 50,000 and over and with ten years' standing should be allowed to invest upto 40 per cent of their surplus funds in such manner as their boards may unanimously determine. One of the members of this committee, the late Dewan Bahadur H. L. Kaji, however, in his minute of dissent, stated that "the directors of such bigger societies are usually more conversant with the money market and would be better guides than the Registrar, even with a Financial Adviser, who cannot be expected necessarily to be a financial expert."

He felt that "the control as it operates today hampers freedom in the investment of funds and must be relaxed." As against this, Shri Siddiq Hasan, the then Registrar of Cooperative Societies, United Provinces and Shri H.R. Bhide, the then Registrar of Cooperative Societies, Punjab, in their joint minute of dissent pointed out that the recommendation of the Cooperative Planning Committee that urban banks should be permitted to invest a certain percentage of their surplus funds in such manner as their boards may unanimously determine, was in their view one of the most reactionary recommendations of the Committee. They opposed it for the following two important reasons:-

"(1) Management of urban banks particularly in Bombay is largely in the hands of persons who are also connected with joint stock concerns - there is a serious danger of funds of societies being used in joint stock concerns whose stability is doubtful

(2) Urban banks have prospered as well as they have done, partly because of efficient management but largely because of the large scale concessions given to them by the state in the form of exemption from income tax, registration fees etc. The state, therefore, has a right to ask these banks to use their surplus funds for agricultural finance. Every effort should, therefore, be made to keep the cooperative structure as one unit and urban banks should not be permitted to invest their surplus funds in joint stock and similar concerns when the demand for funds for agricultural finance remains unsatisfied. The existing restrictions in regard to investment of surplus funds of urban banks should therefore remain and the relaxation proposed by the Committee should not be made"

3.73 The Committee of Direction of the All India Rural Credit Survey, 1954, endorsed the following recommendations of the Fifteenth Registrars Conference, 1947:

"..... the surplus funds of urban banks should ordinarily be invested in provincial (state) and central cooperative banks to enable them to finance cooperative societies. Where such investment is not necessary, urban banks may be empowered to invest 15 per cent of their surplus funds, after providing for fluid resources, in such manner as their boards may unanimously decide and in accordance with such terms as the Provincial Government may lay down."

It do not feel that the present conditions would justify reconsideration of the issue.

STAFF

3.79 An adequate and efficient staff is essential to the proper functioning of urban cooperative banks. It was suggested in some quarters that there should be a cadre of employees for urban cooperative banks and other cooperative banking institutions. This question has been examined recently by the Committee on Cooperative Administration and we would endorse their views i.e. "In many states, in the present stage of development of the movement, the number of institutions that will be served by a particular cadre, the uneven size and business of the institutions and the uncertainty of the boards of such institutions being attracted to the idea of a cadre, it may be premature to think in terms of cadres of personnel to cater to different types of institutions such as central financing agencies, primary marketing societies, primary land mortgage banks etc."

3.80 In order to ensure, however, that cooperative institutions are manned by qualified persons and also to provide some security and permanence of service to their employees, the Registrar of Cooperative Societies, in consultation with the apex cooperative bank, may prescribe minimum qualifications that should be satisfied by the staff of urban cooperative banks and these and other service conditions should be laid down.

3.81 The Committee on Cooperative Training organises courses in cooperative banking. The managers of urban cooperative banks should take advantage of these courses.

The courses held by the Indian Institute of Banking may also be availed of.

INSPECTION, SUPERVISION AND AUDIT

3.82 One of the recognised ways of keeping the cooperative banking structure in sound health is to have a well planned programme of inspection of its different units.

However, in the case of urban cooperative banks, inspection is conspicuous by its absence. The main objectives underlying inspection should be :

- a) to ensure that provisions of cooperative acts and rules are properly observed;
- b) to see that directives of the management are carried out;
- c) to inculcate discipline among the members of the staff and thereby infuse a sense of responsibility, integrity and sense to the whole organisation;
- d) to ensure the maximum security to the depositors, the members and the staff; and
- e) to guide the management regarding the development of business on sound lines.

1.83 Inspection should therefore be undertaken at regular intervals. Normally, the responsibility of arranging for inspection should be of the apex/central cooperative banks. In any case, whether these apex/central cooperative banks or the department is entrusted with inspections in any state, the machinery should be strengthened, if required, and it should be ensured that periodical, effective and educative inspection is carried out.

1.84 The central cooperative banks are the proper agencies to exercise supervision over primary credit societies including urban cooperative banks and where the responsibility of supervision is not with the central financing agencies there should be a phased programme for transferring the responsibility to them. Whether the supervision is with the cooperative department or has been transferred to the central cooperative banks, systematic arrangements for continuous and effective supervision must be made. The Committee on Cooperative Administration has recommended that while finalising the norm for appointment of supervisory staff, one supervisor/inspector should be provided for every 15 employees credit societies and urban banks. This recommendation may be given effect to.

3.85 We feel that the greatest emphasis should be given to timely and thorough audit of such institutions. With regard to audit attention may be drawn to the recommendation of the Committee on Cooperative Administration that a senior auditor for every 25 employees credit societies and urban banks should be provided for when fixing the standards for appointment of audit staff. The audit of bigger institutions may be entrusted to professional auditors. For this purpose a panel of chartered accountants may be approved by government ~~from which~~ appointment may be made with the approval of the Registrar of Cooperative Societies. As already suggested, it should be ensured that audit is completed so as to enable urban cooperative banks to hold general body meetings within 3 months of the close ~~of the~~ ^{from} end of the cooperative year. In large institutions concurrent audit is necessary.



Chapter IV

EMPLOYEES COOPERATIVE CREDIT SOCIETIES

ROLE

4.1 The need for cooperative credit societies among salaried classes and particularly in the lower income groups cannot be over-emphasised. Both the Pay Commission, 1957-59, and the Staff Welfare Review Committee set up by the Ministry of Home Affairs recognised the need as a real one. The Staff Welfare Review Committee observed that "Due to various reasons the incidence of indebtedness among Government employees belonging to the lower income groups seems to be fairly high. Apart from being indebted to the cooperative societies, some of the employees, due to circumstances beyond their control, are compelled to borrow from outside sources on stringent terms and conditions and at unconscionable rates of interest. If staff welfare measures are to be really effective it is necessary that such employees should be saved from the clutches of unscrupulous creditors by providing alternative sources of credit. There can be no better alternative source than a cooperative society offering credit at the lowest possible cost." Recently the Study Group on Cooperatives under Railways and Posts and Telegraphs Department pointed out that "Government employees particularly in the lower income group constitute a more vulnerable section than is generally recognised. The vast majority of the Government employees do not have any accumulated savings and are compelled to borrow from time to time. Any private money lender who lends money to a government employee will normally take into consideration the risks involved in such lendings, namely, the unsecured nature of the debt and the existence of various restrictions regarding attachment of salary in case of default etc. To cover these risks he usually charges exorbitant rates of interest." This is equally true of employees both in private and public sector

undertakings, in offices as well as in factory areas. Though there is no reliable estimate of the extent of indebtedness in urban or semi-urban areas, we may quote the instance of a sample survey conducted by the Welfare Personnel Training Institute in Bhuli in the Enam township and village in 1959 which revealed the magnitude of indebtedness amongst the colliery workers. The average amount of debt per indebted family was estimated at Rs.244 which was equivalent to an average of $2\frac{1}{2}$ months earnings of a worker. Loans were mainly obtained from professional money lenders and shopkeepers at rates of interest ranging from 5 to 25 per cent per month. Only 12 per cent of the loans were for productive purposes such as building and repairing of houses, purchase of livestock, agriculture, or acquisition of property. The remaining 88 per cent were for unproductive purposes, e.g., household maintenance, marriages, sickness, etc.

4.2 While it is possible for such employees to make use of the facilities of urban cooperative banks, employees cooperative credit societies afford a much simpler and more convenient form of organisation for them. Such a society can be organised within the institution where the persons are employed, members have a fair degree of acquaintance with each other's character, needs and financial position and the repayment of loans is ensured through deductions from pay bills. Such societies have the added advantage of encouraging the habits of thrift and saving amongst employees which can help them to tide over their difficulties as well as constitute savings available to them at the time of retirement. As salary earners or employees societies and factory workers societies are similar in organisation and working they have been dealt with together in this Chapter.

COVERAGE

4.3 A large number of well-run employees cooperative credit societies have sprung up both in the public and private sector organisations as an answer to a felt need. However we have again no consolidated and dependable data regarding the number and

working of employees cooperative credit societies in the country. The information as far as is available from the states is given below. As all states do not use the same definition for employees cooperative credit societies the information may not be accurate in respect of all states. For instance, in some states, data regarding thrift and credit societies of employees as well as of factory workers has been compiled together. In other states, data regarding the societies of factory workers has been shown along with other types of non-agricultural credit cooperatives. Figures relating to them are therefore not given in the Table below. In some states, all types of non-agricultural credit cooperatives, except perhaps urban cooperative banks, have been included in the figures. Subject to these limitations, the information from certain states regarding employees cooperative credit societies is as below:-

Table 4.1:- Number and membership of employees cooperative credit societies.

	1960-61		1961-62	
	No. of societies	Membership	No. of societies	Membership
Bihar	202	81,000	202	93,000
Madhya Pradesh	208	17,000	212	19,000
Madras	602	3,07,000	675	3,29,000
Maharashtra	1116	3,48,000	1199	4,46,000
Orissa	114	20,000	133	17,000
Punjab	333	60,000	273	62,000
Rajasthan	226	30,000	269	34,000
Uttar Pradesh	1027	2,28,000	1057	2,42,000
Pondicherry	6	500	7	600
Assam	6	865	6	834

4.4 The progress of the organisation and expansion of such societies varies in the states, and is to some extent related to the number and size of employing organisations. A large number of societies have come up in Maharashtra, Uttar Pradesh and Madras. The number of employees organised in such cooperatives in Maharashtra is over 4 lakhs, in Madras over 3 lakhs and in

U.P. over 2 lakhs. In other states, however, it is considerably lower. Large states such as Orissa and Madhya Pradesh accounted for under 20,000 members each.

4.5 It is difficult to make an assessment of the percentage of salaried classes covered by employees cooperative credit societies. The central government employs approximately 20 lakhs persons. The Railways alone employ more than 54% of the total civil staff under the central government and nearly 57.4 per cent of this staff is covered by employees cooperative credit societies. Special efforts by this department have however been made for the development of cooperatives amongst its employees and this percentage would not be reflected in other departments. The state governments employ approximately 17 lakhs employees. Data regarding the number of employees in the private sector, i.e., commercial undertakings, factories, municipalities and local bodies, schools, universities, hospitals, etc., is not available. It would be larger than that employed by the central and state governments. Obviously, considerable efforts will have to be made to cover an adequate percentage of employees within the next few years.

4.6 The Cooperative Planning Committee appointed by the government of India on the recommendation of the Fourteenth ~~Wise-~~ trars' Conference in 1945 had suggested that all offices employing 50 persons or more and every mill or factory should organise employees cooperative credit societies for providing the credit needs of its workers and for promoting habits of thrift. No systematic action has been taken to follow up this recommendation in any state. We would suggest that a review of all employing organisations be carried out with the objective of covering all institutions having more than 200 to 300 employees in the initial stages. By the end of the fourth plan, smaller organisations should also be covered so that every office with more than 50 employees and every mill or factory has an employees cooperative credit society.

4.7 Normally such institution should have a separate employees cooperative credit society. Institutions having more than one large department or branch or having an area of jurisdiction extending beyond one town may find it necessary to organise separate societies for such departments or branches.

MEMBERSHIP

4.8 The size of an employees cooperative credit society varies considerably. The average membership of a society varies from over 450 in Bihar and Madras to a little over 100 in Orissa and Rajasthan and less than that in Madhya Pradesh and Pondicherry. The membership of a society is naturally dependent on the size of the institution or the department or branch of the institution whose employees it serves. All efforts should however be made to enroll all eligible members requiring the facilities of the society as its members.

4.9 In the case of employees cooperative credit societies visited by us we found that, generally, membership was open to all confirmed employees of the institution. In some cases unconfirmed employees were also taken as members after a certain period of service. In some such cases they were given credit and in others they were not advanced loans until such time as they were confirmed. We would suggest that normally membership should be ~~thrgwn~~ open to all permanent or quasi-permanent employees. As in certain institutions it takes considerable time before employees are confirmed, persons having served a minimum specified period, which would indicate that they would be eventually confirmed, may also be enrolled as members. They may be given loans in the same manner as other members and confirmed employees may stand as sureties. The membership of retired employees may be continued till their liabilities to the society are discharged.

4.10 In some societies membership is confined to certain classes of employees only. Where there were a large number of employees it was found convenient to have separate societies for separate types of employees such as factory workers, clerical staff, class IV staff, etc. One such society informed us that as

Class IV staff were given loans and other assistance directly by the management it was not necessary to admit them as members. On the whole, however, we would recommend that societies should be open to all classes of employees and no distinction should be made on the basis of category or grade. If more than one society is necessary in a very large undertaking, separate societies should be set up on the basis of area or branch or department rather than on the basis of class. A well-developed society should also be able to take up such welfare activities of the management as providing loans and grants to the lower-paid staff. The membership of the latter would enable them to have a voice in the conduct of such activities.

4.11 Further restriction is placed on membership in a few societies which enroll only members of trade unions. In some others, admission is open to all employees but loans were sanctioned only to members of trade unions. The trade unions have an important role to play in the promotion and organisation and strengthening of cooperatives of employees. We feel however that it would be incorrect to restrict membership in this manner - the employees cooperative credit societies should function in the interest of all employees and all should be equally eligible to be enrolled as members and to avail of the services of the cooperatives. In this respect we would endorse the recommendation of the Study Group on Cooperatives under Railways and Posts and Telegraphs Department that the trade union movement should "adopt a special code for its relations with cooperatives so as to ensure that the factions which may be prevailing in trade unionism are not allowed to be imported into the cooperative movement. In view of the rapid democratisation of the cooperatives, a special moral responsibility attaches to the trade unions to ensure that nothing is done which should retard the growth of the cooperatives among the workers."

4.12 As already recommended in respect of urban cooperative banks, we would stress that, in the case of employees cooperative credit societies also, all members should be enabled to participate actively in the management of the society and the formulation of its policies. It should therefore be ensured that audit is completed within a specific period after the end of the cooperative year and the general body meeting should be called immediately thereafter.

4.13 Where the membership of a society is very large or where the jurisdiction of the society extends beyond the area of a town or to more than one town, it is not possible for members to participate in the meeting except by sending representatives or to some extent through postal voting. The bye-laws of some of the larger societies provide for a delegate system, one delegate being elected from different constituencies consisting of 50 to 100 persons. Several societies however have no such arrangement and therefore all members cannot attend the general body meeting. The Cooperative Societies Act in West Bengal provides that a society with 1500 or more members may observe the delegate system. As a result some societies with less than 1500 members have not been able to adopt the system even though it had members in more than one town and some as far away as Madras and Lucknow. They were naturally cut off from the running of the society. We would therefore suggest that a society with more than 1500 members or with an area extending beyond a town may hold its annual general body meeting under the delegate system.

4.14 For the guidance of employees and the education of members of employees cooperative credit societies, an educational programme similar to that recommended for members of urban cooperative banks is suggested, i.e., suitable literature should be produced, visits to well-run societies may be arranged and quarterly meetings may be held in which leaders of the cooperative movement may also participate.

BOARD OF DIRECTORS

4.15 The members of the managing committees or the boards of directors and office bearers of employees cooperative credit societies are usually elected by the members and are in charge of the administration of the society subject to the decisions of the general body and according to the bye-laws of the societies. In respect of directors and office bearers we would repeat the following recommendations made in respect of directors of urban cooperative banks.

- (a) Elections to the board of directors may be held once in three years or each year by rotation for one-third of the board; the latter system appears to be generally more advantageous.
- (b) There should be a regular election code to provide for nomination and voting by secret ballot as in Maharashtra and Madras.
- (c) The question of encouraging new and younger leadership deserves consideration. The education of members is important in this connection.
- (d) The educational programme suggested for members should be extended to directors. In addition, seminars and workshops for directors of different societies may be organised.

4.16 We found a large number of societies where a certain number of the directors on the board were nominated by the Registrar of Cooperative Societies. This practice was particularly prevalent in West Bengal where it appears that societies request the Registrar nominate persons from the management or employers on the board as directors. The number of such nominated directors ranges from 2 to 9 and quite often exceeds one third of the number of directors on the board. This practice is observed even though neither the government nor the management has a financial stake in the society. In other states, also, it was observed that the practice of having

nominees of the management as ex-officio members of the board of directors and as office-bearers was in vogue. The number of such ex-officio members again varied and at times exceeded one-third of the total number of directors. It was represented that nominees of the management were helpful in setting the society on its feet, in maintaining proper supervision and accounts and in establishing liaison with the management, ensuring recovery of dues from the ~~salary~~ of the staff and securing other types of assistance. In several cases the interest taken by the employers in promoting and maintaining general supervision over the working of the society has helped its growth. However, such nominees do not always have the time or the interest to look after the working of the society. We must also point out that societies without any nominees of the management on the board of directors appeared to be doing at least as well as those which were guided by such nominees. It was also represented to us that, in a few cases, the association of the management with the board of directors led to the funds of the society being temporarily utilised for the purposes of the management with consequent loss to the society.

4.17 We would recommend that in no case should the Registrar of Cooperative Societies or the state government nominate directors. Where a society desires to associate the management with its working, with a view to securing certain advantages, it should be possible to do so by making ~~necessary~~ provision in the bye-laws. As the society grows and acquires strength and stability, it should conform increasingly with democratic principles. There should be no difficulty in this as the members are usually educated and able to conduct their own affairs. It would also encourage the growth of cooperative leadership if each member was given the right and scope of being elected to the board or to an office. The bye-laws providing for nominees of the management to be ex-officio members of the board of directors or office-bearers, should therefore specify that this arrangement should exist only in the initial stages and should be limited to a period of about three years.

... THREE

4.3 Data as far as available regarding the resources of employees' cooperative credit societies, i.e., the owned funds and borrowed funds of such societies, is given in the Table below.



Table 4.2 - Resources of employees' cooperative credit societies.

(Rs. in lakhs)

STATE
*() 1960-61

1961-62

		Owned funds	Deposits	Other borrowings	Working capital	Owned funds	Deposits	Other borrowings	Working capital
Bihar		105.27	398.37	7.75	511.39	123.13	441.46	15.05	579.64
Madhya Pradesh		14.40	9.57	0.39	30.36	15.85	9.97	9.35	35.17
Madras		185.28	404.65	57.14	647.07	200.56	422.69	148.91	772.26
Marashtra		1184.00	256.00	99.06	1539.00	1344.00	282.00	256.00	1882.00
Orissa		10.57	15.67	3.68	28.72	16.65	18.75	4.18	33.78
Punjab		12.92	13.30	1.79	28.01	15.07	15.23	10.89	41.19
Rajasthan		23.40	44.18	4.60	72.18	23.96	41.40	5.97	71.33
Uttar Pradesh		151.20	222.70	28.42	402.52	167.77	241.11	32.12	441.00
Pondicherry		0.24	0.09	0.31	0.64	0.34	0.19	0.32	0.85
Tripur		0.09	0.01	-	0.10	0.46	.00	0.00	0.46

4.19. It will be seen that such societies depend primarily on deposits and secondly on owned funds. Their borrowings from outside agencies are to a limited extent only.

4.20 Owned funds consist of share capital and statutory reserves. The building-up of a strong capital base through owned funds is essential for the security of the society and for enabling outside borrowings. The value of shares in employees cooperative credit societies is normally Rs.10/- which appears reasonable. When necessary, this can be deducted in instalments from the pay of the employee. We received some complaints that members are allowed to purchase only a very limited number of shares under the act or the bye-laws. Excessive restrictions should be relaxed in order to encourage members to invest in shares and thereby increase the capital base of the society.

4.21 As pointed out, the bulk of the working capital of those societies is made up of deposits. To a large extent this is the result of schemes for thrift deposit funds, usually of a compulsory nature. The thrift deposit funds may be constituted in several ways, e.g.,

(a) in a large number of societies contributions are deducted compulsorily from the pay of the members.

The rate of contribution is related to the pay of the member or the category of staff to which the member belongs. Withdrawal from the fund can be made only when the member leaves the society or on his death;

(b) in some cases deductions at a regular rate are made from loans advanced by the society or from the instalments repaid by the member;

(c) in a few societies the rate of contribution is voluntarily determined by the member within a certain minimum or maximum amount; and

(d) in some cases amounts so deducted are converted into share capital until a certain maximum is reached. Thereafter, the amount is placed in a deposit fund which cannot be withdrawn until the member leaves the society or on his death, and thereafter the amount contributed is kept in a normal savings account from which withdrawals are allowed after a specified period.

4.22 Thrift is an essential part of cooperative credit and it is therefore important to introduce such a compulsory deposit fund. Besides augmenting the capital of the society, the deposits help the members to obtain a lump sum at the time of retirement. A certain amount of compulsion is inevitable if thrift is to be ensured on the part of the members. We found that the members who had got used to meeting such monthly deposits did not consider it a hardship even in the context of rising prices and the compulsory deposit scheme of government as they had become aware of the benefits of the system. The societies which have introduced this scheme are undoubtedly doing much better and are in a position to help their members to a far greater extent than societies which do not have any such system of compulsory deductions. We feel it would be most convenient if such deductions are made on the basis of the pay of the member. The Railway Board have suggested the following scale for deduction of compulsory deposits:

Members getting salary upto Rs.50/- per month	Re.1 per month
-do- Rs.51 to Rs.100/- per month	Rs.1.50 per month
-do- from Rs.101/- to Rs.200/- per month	Rs.2 per month.
-do- from Rs.201/- to Rs.300 per month	Rs.3 per month
-do- from Rs.301/- to Rs.400/- per month	Rs.4 per month
-do- from Rs.401/- to Rs.500/- per month	Rs.5 per month
Members getting salary above Rs.500/- per month	Rs.6 per month

We would recommend such a scale for adoption in all societies.

4.23 Normally the fund should not be withdrawable except when a

member leaves the society or on his death. We came across cases where persons gave up their membership and withdrew their deposits and, after a short interval, rejoined the society. This should be avoided and a specific period should be laid down before a member who has resigned is again allowed to join or he should be required to redeposit the money drawn before being permitted to join.

4.24 In order to safeguard the thrift deposit fund from attachment, it is recommended that a provision on the lines of Section 31 of the Maharashtra Cooperative Societies Act, 1960 i.e., "The share or interest of a member in the capital of a society, or in the loan stock issued by a housing society or in the funds raised by a society from its members by way of savings deposit, shall not be liable to attachment or sale under any decree or order of a Court for or in respect of any debt or liability incurred by the member; and accordingly, neither the Official Assignee under the Presidency Towns Insolvency Act, 1909, nor a Receiver under the Provincial Insolvency Act, 1920, nor any such person or authority under any corresponding law for the time being in force, shall be entitled to or have any claim on, such share or interest" may be included in other state cooperative societies acts.

4.25 The societies should also encourage savings and augment their capital by introducing different types of savings and deposit schemes. Deposits may also be taken from ex-members, temporary employees not yet admitted as members and relatives of members, etc. We found rates of interest on deposits varied from as little as $2\frac{1}{2}$ per cent to as high as $7\frac{1}{2}$ per cent. The rates should be kept economic yet sufficiently attractive to encourage deposits.

4.26 In order to encourage the formation of capital by efforts on the part of the members themselves, it may be considered whether the dividend earned by the members, in part or in whole, in the initial stages or regularly, could be placed in a special savings account. This, with accumulated interest, may be made

or when
available to the member after a specified period, he leaves the
society or to his family on his death.

4.27 In a few societies we found that the employers had deposited certain funds of their own with the societies. We would commend this practice to other organisations.

4.28 To a large extent the societies are standing on their own feet without any assistance or borrowings. However some societies at certain periods do require financial accommodation. Some other societies needed to borrow regularly. The Calcutta Police Cooperative Credit Society Ltd., Calcutta, had loan applications pending for over six months as they did not have the funds to meet the demands. The Ministry of Food & Agriculture Thrift and Credit Society admits only 18 members per month as they apprehend that if they took a larger number of members they would not be able to meet the increased demand for loans. The Cooperative Credit Society of the Commissioner for the Port of Calcutta regulates entry of new members, for similar reasons. With increased membership and expansion of the movement such demands will also increase. It should be the responsibility of the cooperative structure to help the societies to meet these demands. At present, however, we found that in most states, employees cooperative credit societies function to a large extent in isolation. In West Bengal, for instance, hardly any non-agricultural credit society is affiliated to the central cooperative banks and only a few to the apex cooperative bank. Even in the case of societies affiliated to central cooperative banks, the latter have not been able to meet the demands of the societies due to shortage of funds and competing demands of the agricultural and other sectors. The Andhra Pradesh State Road Transport Corporation Employees Cooperative Credit Society, for instance, which had over 300 applications for loan amounting to Rs.4,50,000 pending, could not get an advance for the necessary amount even though the Corporation agreed to stand guarantee.

We would recommend that all employees cooperative credit societies should, as a normal rule, be affiliated to the central cooperative bank or, where there is no central cooperative bank as in Calcutta and Bombay, to the apex cooperative bank. In exceptional cases, where it would not be possible for the central cooperative bank to help the society, and with the permission of the Registrar of Cooperative Societies and the apex cooperative bank, the society may be affiliated directly to the apex bank. The central financing agencies should also recognise the claims of employees cooperative credit societies as legitimate and should give them reasonable credit facilities whenever necessary. We have in regard to urban cooperative banks discussed the need to enable the central financing agencies to meet the demands of non-agricultural credit societies and to have separate sections for the purpose.

4.29 We would also suggest that employees cooperative credit societies should normally use cooperative banks as their bankers and maintain their current accounts, savings accounts and fixed deposits with them. This would enable the central financing agencies to play the balancing role assigned to them. Such long-term investments as the societies may be in a position to make should preferably be in the form of debentures floated by central land mortgage banks. Their combined surplus resources would, therefore, be available with the cooperative movement.

4.30 It is difficult for a new society to raise sufficient resources with which it can build up its loan operations and membership. In some cases employers have given loans or grants to the societies to tide over their difficulties in the initial stages. For instance, the state government has loaned about Rs.3 lakhs to the Andhra Secretariat Staff Cooperative Society Ltd., at a subsidised rate of interest. The Study Group on Cooperatives under Railways and Posts and Telegraphs Department recommended that as in the case of the Chittaranjan Locomotive Works Cooperative Credit Society, the Railways should give initial

loan assistance to infant societies. In the case of societies of employees of the Posts and Telegraphs Department, it recommended a working capital loan upto the limit of Rs.15,000. Similarly the Staff Welfare Review Committee examined this question and suggested that there should be state participation in the share capital or government should advance substantial loans at a nominal rate of interest repayable in a fixed number of instalments. We would also recommend that, wherever necessary, the employers ~~or~~ government should make a working capital loan upto Rs.15,000 available to employees cooperative credit societies at a reasonable rate of interest repayable in ten years. This may be made contingent on a provision in the bye-laws of the society for compulsory thrift deposits.

FLUID RESOURCES

4.31 As employees cooperative credit societies accept deposits from members and non-members, maintenance of fluid resources in accordance with prescribed standards is necessary. Certain societies, it was observed, were not regularly maintaining any such fluid account. The Study Group on Cooperatives under the Railways and Posts and Telegraphs Department examined the standards of fluid resources taking into consideration the special features of thrift deposits in employees cooperative credit societies which are refundable only at the time of retirement of a member from service or on death and suggested the following scale:

- (a) 40 per cent of deposits at call or current account, cash credits and overdrafts sanctioned but not drawn, (deposits matured but not drawn may be treated as deposits at call for the purpose of calculation of fluid resources);
- (b) 25 per cent of savings deposits;
- (c) 25 per cent of fixed deposits maturing within the next three months; and
- (d) 100 per cent of the amount of thrift deposits falling due within the next 30 days

We would also recommend that the Registrars of Cooperative Societies should review the position existing in their states and prescribe and enforce the rate of fluid resources on the above standards.

4.32 LOAN OPERATIONS

Data, as far as available, regarding the loan operation of employees cooperative credit societies is given in the Table below:

Table 4.3:- Loan operation of employees cooperative credit societies.

	Working capital	<u>1960-61</u>		
		Advances	Outstanding	Overdues
Bihar	511.39	389.27	377.26	12.67
Madhya Pradesh	30.36	16.75	21.37	3.28
Madras	647.07	600.25	566.02	45.17
Maharashtra	1539.00	1111.00	928.00	52.00
Orissa	28.72	21.39	23.02	4.64
Punjab	28.01	26.96	31.43	6.22
Rajasthan	72.18	52.32	67.79	5.48
Uttar Pradesh	402.32	122.43	394.95	13.04
Pondicherry	0.64	0.80	0.39	Nil
Tripura	0.10	0.09	0.06	Nil
<u>1961-62</u>				
Bihar	579.64	451.71	449.55	10.97
M.P.	35.17	21.52	24.54	4.85
Madras	772.26	1185.57	671.21	32.11
Maharashtra	1882.00	1065.00	999.00	54.00
Orissa	33.78	26.41	26.80	2.41
Punjab	41.19	34.18	37.50	5.32
Rajasthan	71.33	53.39	72.26	5.50
U.P.	491.00	158.51	430.92	10.50
Pondicherry	0.85	1.44	0.71	Nil
Tripura	0.46	0.08	0.08	0.01

4.35 The main object of employees cooperative credit societies is to encourage thrift as well as to meet the genuine needs of its members for loans at reasonable rates of interest. The work of ~~these~~ societies is comparatively simple as they generally have adequate resources to meet the demands for loans and recovery is more or less ensured as it can be effected by deductions from the pay slips of the ~~members~~ by the management. This has, in certain cases, resulted in unnecessarily large borrowings and indebtedness which could, perhaps, have been avoided. In certain cases malpractices have arisen and loans obtained at low rates of interest were ~~refused~~ at exorbitant rates.

4.34 It is, therefore, essential that the lending of employees cooperative credit societies should be more closely related to the purpose and to the repaying capacity of the member. For this reason, in a few societies, the loan applications are fairly detailed and indicate, among other things, the purposes for which borrowing is necessary and also previous commitments. This practice may be adopted in all societies. There should also be scrutiny of the correctness of the statement. This is usually not done as it is not considered necessary and as it may be embarrassing for a member of the managing committee to enquire of details from his colleagues. However, some enquiry in a sympathetic and unobtrusive manner is required, if the member is to be actually helped and the society is to function as more than a money lender. While it should not be necessary to call a member to a board meeting for cross-examination, it may be possible for the member of the managing committee to make discreet enquiries within the department in which the member works. Generally, however, it may be advisable to have a committee of members who could scrutinise the applications and recommend whether the loan should be given or not and whether the amount asked for would be within the repaying capacity of the applicant. The responsibility for scrutiny would be delegated and the members of the committee may represent different branches and

thus have some personal knowledge of the loan applicants.

4.35 There should also be scrutiny of the manner in which the loan amount has been spent and it should be ensured that the money is spent for the purpose for which it is required. It may be possible in certain cases for a society to make payments direct, for example, to the doctor for his bills, to grocers for purchase ~~importance~~ of commodities or to the creditor for redemption of previous debts, with the permission of the member.

4.36 The amount of loan available to members varies considerably in the different employees cooperative credit societies even in the same state. Normally, it is related to a certain multiple of the pay of a member and to the share capital contributed by him subject to a ceiling. It may also be related to insurance policy, provident fund or the category of staff to which the member belongs. For certain specific purposes the maximum limit can be extended, for example, for acquiring or repairing a house or for ~~redemption~~ of previous dues. The instalments in which repayment is to be made also varies to a considerable extent. The rate of interest was observed to vary from 5 per cent to 9 per cent. While the rate should be reasonable and will naturally depend on the borrowing rate of the society, 9 per cent appears on the higher side. We would suggest that the societies should review their rates from time to time to keep them reasonable. The quantum of monthly instalments should not exceed a certain percentage e.g., ordinarily one-third, of the basic pay.

4.37 As a rule, 6 to 8 times a person's substantive pay is given as ordinary loan to be repaid in 2 to 3 years. We came across demands that the maximum amount of loan should be increased as also the number of instalments in which it should be repaid. The managing committee should go into the implications of these demands carefully before agreeing to any relaxation. Larger loans may lead to increase in the indebtedness of the member and may exhaust his repaying capacity. Such loans would

also have to be covered by long-term resources.

by us

4.38 A few societies visited also had provision for giving emergency loans. One society set aside upto Rs.7,000/- each month for distribution as emergency loans. In another society, the chairman and the secretary could sanction Rs.25 to a member subject to confirmation in the next meeting of the managing committee. In a third society, a certain multiple of the share capital and compulsory deposits was given as emergency loan subject to a maximum amount of Rs.250/-. We would suggest that all societies may consider having a provision to meet the needs of the members for emergent purposes so that unnecessary delay in scrutinising the applications and sanctioning the loan by the managing committee could be avoided.

4.39 We would recommend that all steps should be taken to see that loans are sanctioned without delay. While a large number of societies visited by us were indeed sanctioning loans within a few days to a fortnight, in some societies found that delay in sanctioning loans was as great as six months. Such delays were largely due to paucity of funds, and to some extent to the fact that the managing committees were not able to meet regularly. The managing committee should meet regularly so that loan applications are sanctioned in time and if it is not possible for the committee to meet so frequently it should delegate the function to a sub-committee of the managing committee.

4.40 There is usually no problem regarding recovery of the dues of cooperative societies. Generally the various state cooperative societies acts or the rules framed thereunder in different states include a provision whereby a member of a cooperative society may execute an agreement in favour of the society providing that his employer shall be competent to deduct from the salary or wages payable to him. Such amount as may be specified in the agreement and to pay the amount so deducted to the society in satisfaction of any due or other demand of the society against the member.

On execution of such an agreement the employer is legally bound, if so required by the society by a requisition in writing, to make deductions from his employees' salary bills in accordance with the agreement.

4.41 However, a certain amount of difficulty arises in the case of societies whose members are liable to be transferred outside the limit of the state. Salary earner societies have been recovering their dues from members who are residing within the territorial limits of the states within which they are registered through the employer according to the provision of the cooperative societies acts. They have not, however, been able to recover the loan instalments of members who have been either transferred outside the territorial limits of the state in which the societies are registered or are residing in other states, through this procedure. This is resulting in serious operational difficulties in a number of good employees cooperative credit societies.

4.42 It is understood that the question was examined by the union department of Cooperation in consultation with the Ministry of Law and they have accordingly advised the states that a multi-unit society (a society with objects not confined to one state) would be able to recover the dues from the debtor residing in any other state to which its objects extend, by requisition to the disbursing officer pursuant to the provisions of the cooperative societies acts in force in any other state. With regard to other societies, they have been advised that suitable provision should be made in the state cooperative societies acts to the effect that the existing provision relating to deductions from salary to meet a societies claim would be made applicable also to other states. State governments should therefore consider undertaking suitable legislation so as to obviate the legal difficulties encountered by cooperative societies in regard to the recovery of their dues, from members who are transferred to other states.

NON CREDIT ACTIVITIES

4.43 In addition to the provision of loans and advances, certain societies have taken up or can take up non-credit activities also. Several employees cooperative credit societies such as the Simpson and Group Companies Employees Cooperative Credit Society Ltd., Madras, are running a consumer stores. Some societies undertake joint purchases of consumer goods on behalf of their members on an agency basis. The Associated Cement Staff Cooperative Credit Society Ltd., Bombay and some other societies run canteens. We came across several societies which were examining the possibility of assisting members through housing schemes. In one case, we found that a society was considering the running of a taxi. It has however been recognised that as a general rule a credit cooperative should not get involved in trading risks and we would recommend that by and large employees' cooperative credit societies should observe this maxim.

4.44 We did come across some consumer stores maintained by employees cooperative credit societies which were excellently run, benefited the members and also increased the profits of the society. However, there have also been cases where a society burnt its fingers in trying to make provision for consumer goods to its members. Generally, it would be advisable for employees to set up a separate cooperative consumer stores which could be assisted under the schemes of the Ministry of Community Development and Cooperation or the Ministry of Labour and Employment or the Ministry of Home Affairs, for the development of such societies. Employees cooperative credit societies can however effectively help their members in obtaining essential supplies and at the same time give support to the consumer cooperative stores in several ways, e.g. (1) by granting loans to members for plac-

ing the money as trade deposits in the consumer cooperative stores and (2) by making an arrangement with the consumer cooperative stores under which an authorisation may be given to a member to purchase consumer goods on credit, the amount being debited against him as a loan by the credit society to be repaid in convenient instalments. This practice is being observed by the Turner ~~Bank~~ - ~~Employees~~ Cooperative Credit Society Ltd., the Calcutta Reserve Bank Employees Cooperative Credit Society Ltd., Calcutta, the Simpson & Sons Companies Employees Cooperative Credit Society, Ltd., Madras and several other societies. In so far as such arrangements are made with private dealers it should be ensured that they are recognised dealers charging fixed prices and there is no possibility of favouritism or malpractice in their selection.

4.45 The objects of certain societies include the introduction of housing schemes. As housing is normally one of the most acute problems faced by employees in towns and cities, several thrift cooperatives represented to us the need and desirability of acquiring housing sites or starting colonisation schemes. While this is a crying need we would recommend that separate housing societies should be set up for the purpose. Provision of housing facilities is not a legitimate function of credit societies as such operations require long term investment and are likely to benefit only a small number of members. The society can of course advance loans for the building repairing of houses provided they are repaid within a stipulated period.

WELFARE ACTIVITIES

4.46 In addition to economic activities, the undertaking of welfare work for their members and the families of members is an objective mentioned specifically in the bylaws of some employees cooperative credit societies. A large number of such societies are particularly affluent. While we do not have

separate figures regarding the profits made by such cooperatives,
maximum
we came across several societies which were declaring dividends
and had funds which they could use advantageously for the benefit
of their members. We would, therefore, strongly recommend that
a part of the profits of employees cooperative credit societies
should be set aside for specified welfare activities, provision
for which may be included in the objects as stated in the bylaws.
We give below some of the activities which we found being under-
taken by societies and which could be emulated by other coopera-
tives:

(a) certain societies secure life insurance business for
its members as agents for the Life Insurance Corporations. This
is conducive to the welfare of the member and at the same time
the commission earned enhances the profits of the society. It
was not previously possible for a society to act as an agent
and, therefore, the secretary or other nominee of the society
acted as such and the commission went to the society. Under a
recent amendment to the Insurance Rules 1959, cooperatives have
been enabled to take out licences to act as Insurance Agents.
This may be taken advantage of. The Ministry of Food & Agri-
culture Thrift and Credit Society sets aside the amount so
earned in a fund for welfare activities.

(b) The Calcutta Reserve Bank Employees Cooperative
Credit Society Ltd. Calcutta, has purchased a holiday home at
Simultella out of savings from profits. It can accommodate
four families who are charged a nominal rent. The Turner Co-
operative Credit Society, Calcutta, is also purchasing a holiday
home for Rs.15,000 from a special fund which was created with
an initial grant of Rs.10,000 given by the employers. Such
homes should obviously be beneficial to the members by bringing
vacations away from the place of work within the means of the
employees. Care should however be taken in selecting the loca-
lity and ensuring that full use would be made of the homes so
that the investment is not wasted.

(c) Educational schemes have a special priority in welfare activities. The Bombay Dyeing and Manufacturing Co.Ltd. Employees Cooperative Credit Society, Bombay, gives free primary and secondary school books to the children of members working in lower pay-scales. The Central Railway Employees Cooperative Bank Ltd. Bombay gave as many as 60 scholarships in 1962-63. The Railway Clearing Accounts Office Employees Thrift and Credit Society, Delhi, has a fund for giving educational assistance to low paid staff (as well as medical assistance to TB and Cancer patients). The TISCO Accounts Office Cooperative Credit Society also assists needy members in meeting the educational expenses of their children by supplying free textbooks and paying the school or college fees.

(d) It should also be possible to organise training programmes for the members of the family of the employees in crafts or skills which would help in augmenting the income of the family.

(e) Some societies such as the Calcutta Reserve Bank Employees Cooperative Credit Society maintain libraries. Others organise recreational activities.

(f) The TISCO Accounts Office Cooperative Credit Society has also obtained the voluntary services of trained medical/social worker workers who help in the follow up of grants for medical purposes. It has a members' advisory bureau with trained experts in the field of child guidance, medical and social work and law who help the employees on a voluntary basis.

(g) In certain circumstances, members may be in distress even after availing of ordinary loans, for instance,

in the case of prolonged illness, or premature retirement because of physical disability, of needy dependents of employees who die while in employment and other unforeseen misfortunes. Interest free loans or grants are made available in such cases by some societies.

4.47 Most of the ministries of the Government of India have ~~set~~ up staff benevolent funds. Certain other institutions also have relief or compassionate funds. These funds are usually built up by donations and regular contributions of members. Difficulty has, however, been experienced in more than one body collecting contributions from employees. In this connection, we may also quote the recommendations of the Pay Commission, 1957-59, that "the present arrangements are generally too much in the nature of governmental charity, which may not be good for the morale of the employees. A cooperative arrangement for relief of distress to which the employees themselves as well as the government contribute might be more in keeping with the present day ideas of the status and self respect of employees." We would therefore suggest that the possibility of entrusting the collection and the running of benevolent funds to employees cooperative credit societies may be examined by the concerned organisations and any contributions or loans given by employers ~~now~~ for the purpose, may be made to the society.

STAFF

4.48 The first requisite for the proper running of a cooperative society is adequate and competent staff. In the case of some societies, we found that the staff was not adequate for more than carrying on the working of the society in a purely arithmetical manner, that is to say, scrutinizing loan applications from the point of view of technical correctness, seeing that the money for loans is available and sanctioning the loan. In addition, it may be necessary to take care to ascertain the genuineness of the cause for borrowing, to supervise the manner in which the amount is spent and to advise the members and help them to get out of permanent indebtedness. The societies may also take up other economic activities or welfare works and for this purpose it would be necessary to appoint sufficient staff.

4.49 In the case of a large number of cooperatives, particularly of employees in the private sector, the employer has made staff available to the society in the initial stages which has been of considerable help to them. It is difficult for a society in the first few years of its existence to pay the salaries of experienced and trained staff with the result that the progress of the society is held up. The Staff Welfare Review Committee had recommended that clerical assistance wherever necessary, in the initial period of upto three years, should be made available by government to such societies of central government employees. The study group on Cooperatives under Railways and Posts and Telegraphs Department also recommended that the P&T Department should continue to spare the services of their staff on deputation to such societies. We would similarly recommend that all employers, whether in the private sector or the central or state governments or public undertakings, may make minimum staff available to employees cooperative credit societies in the initial stages for about three years or alternatively provide managerial subsidy.

4.50 Almost no society has staff specially trained in cooperative management etc. As the problems of employees cooperative credit societies are of a different nature from those of agricultural credit societies, we would suggest that special short-term courses may be held for them in a few regional training centres. Such courses may provide orientation in cooperative principles and emphasis should be placed on practical subjects such as accountancy, book-keeping etc. The possibilities of extending the functions of employees cooperative credit societies may be touched upon. It would be helpful if they could be given an idea of the work been that has^{been} done in this field in other areas and shown some of the excellent examples of such societies in different towns whose experience could be availed of with advantage.

4.51 It is desirable that the staff of employees cooperative credit societies receive pay commensurate with the pay received by the employees of the organisation where the society is formed. The employees should also be eligible for provident fund, gratuity, medical aid, and other such allowances available house allowance to members of the society from their employers. In other words, there should be regular code for recruitment and service conditions for the staff of the society. They should also have the benefit of such welfare schemes as the society may undertake. We were gratified to observe that in several societies visited by us this is already being done.

4.52 In some societies, employees are not allowed to become members of the society. In other cases they are allowed to become members but are not eligible to borrow. The need of the employees of the cooperatives being comparable to that of the members of the society, arrangements to enable them to get credit at reasonable rates should be made and habits of thrift should also be encouraged in them. In Madras, employees of cooperatives have organised into a separate credit society. This may, however, not be practicable in all towns as these societies are spread out in different areas. They may, therefore, be allowed to become members of the cooperative society in which they work and should be eligible to borrow with such safeguards as may be necessary.

INSPECTION, SUPERVISION AND AUDIT

4.53 We have pointed out the need for inspection, supervision and audit ~~with respect to~~ of urban cooperative banks. The recommendations are also applicable to arrangements for employees cooperative credit societies.

ASSISTANCE AND FACILITIES

4.54 From the data available, it appears that employees cooperative credit societies are generally very well run and to a large extent depend upon their own resources. However, in the initial stages particularly, they may run into difficulties. It would therefore be desirable for the employers to extend certain assistance and facilities to the societies which are organised for the welfare of their employees. We have already touched upon certain types of assistance which may be required. We give below what we consider are essential facilities to be made available to them by the employers:-

- (1) Employees cooperative credit societies should be recognised as an essential part of the welfare activities of the undertaking and a sympathetic and helpful attitude towards its formation and running should be adopted.

(2) Adequate furnished accommodation should be provided by the employer together with free electricity and water, etc., to the employees cooperative credit societies.

(3) For an initial period of three years some clerical assistance may be made available or managerial subsidy may be provided.

(4) A working capital loan of upto Rs. 15,000/- free of interest may be given to new societies if necessary. This may be recovered in a period of 10 years.

(5) Assistance should be given in making deductions from the pay sheets of members for share capital, thrift deposits and instalments of loans, etc. No commission should be charged for such assistance. Recoveries may be handed over by cheque rather than as liquid cash to the societies where they so desire.

(6) The managing committee members, members of sub-committees, etc., should be allowed necessary facilities to absent themselves from attending society meetings, etc., or to undertake tours on behalf of the societies. The facility of using departmental transport where available on normal or concessional rates may be provided.

4. (7) Labour officers in industrial organisations or offices and the welfare officers of government offices may be given a short orientation course in cooperation and its application to employees, or workshops or seminars may be held for the purpose. In this connection, we would point out that schools of social work and labour management institutes from which labour officers are normally drawn or where they are trained, should have a course on cooperation with particular reference to cooperation for employees and labourers.

Chapter V

PROMOTION OF NON-AGRICULTURAL CREDIT COOPERATIVES

NEED FOR NON-AGRICULTURAL CREDIT COOPERATIVES.

5.1 It will be evident from the data given in this report that a strong and healthy non-agricultural credit sector already exists in the country. Representatives of state governments and cooperative institutions with whom we discussed the functioning of this sector had few complaints or suggestions for improvements. Recommendations contained in this report mainly deal with marginal improvements in the working of urban cooperative banks and employees cooperatives credit societies or with the creation of conditions to help the growth of such cooperatives. We hope that this will lead to a closer integration of the non-agricultural credit sector with the cooperative structure in the country as a whole with consequent benefits to both, to helping urban cooperative banks to come into their own as a major factor in the economic development of urban and semi urban areas and to making employees cooperative credit societies an instrument for the welfare of salaried classes.

5.2 The coverage of this sector is however uneven and inadequate. This could be directly attributed to the lack of attention paid to this sector by the leaders of the cooperative movement and the framers of cooperative policy. In recent years, with the growth of planning and increase in the tempo of economic development, steps have been taken to promote the development of various types of economic activities. The importance of the cooperative sector as a balancing force embracing all activities lending themselves to cooperative organisations has been widely recognised. In the sphere of cooperation, much attention has been paid to the promotion of agricultural cooperatives comprising credit and supply cooperatives, marketing and processing societies, and farming cooperative societies; industrial and cooperatives (in particular, handloom weavers' societies;

as

and other types of cooperative societies such/fisheries, dairies, housing and transport and labour contract and construction cooperatives. Simultaneously, considerable thought has been given to the provision of training and education in cooperation, to framing of cooperative laws and to the building up of an adequate and dependable administration, in order to create conditions to ensure that the movement develops on sound lines.

5.3 Similar efforts have not been made for the development of non-agricultural credit cooperatives. No specific provision was made for assisting their growth in the first, second and third five year plans and no objective laid down in this regard. Partly, this is the result of the generally satisfactory condition and fairly good rate of progress of non-agricultural credit societies and their ability to stand on their own feet and, partly, to the fact that, as no financial assistance is normally required or provided for such societies, they form no part of the state plans. To some extent it is also the result of the relatively less active interest taken in the comparatively better-off sections of the community i.e. the middle class, including the artisan and the small trader, the professional man and the salaried employee. There has been further a lack of recognition of the potentialities of the institutions catering to a need.

5.4 It may not be out of place to reiterate the contribution that non-agricultural credit cooperatives make to their members, to the cooperative structure and to general economic development. As far as urban cooperative banks are concerned, they have an important role to play in several respects including the following:-

- (a) First and foremost, they can organise and bring together middle and working classes in urban and semi urban areas and inculcate in them the habits of thrift and self help and acquaint them with the elements of ordinary banking principles;
- (b) the mobilisation of savings by urban cooperative banks and subsequent drawing of urban resources into the apex and

central cooperative banks which are in need of funds to finance the rural, industrial and other functional cooperatives, can contribute to general economic development;

(c) by providing credit on reasonable terms to the middle classes, they can rescue them from the exploitation of money lenders and other unscrupulous agencies, which is particularly important in the context of rising prices and cost of living. This has consequent effects also on non-cooperative lendings;

(d) by financing individual industrialists and artisans working in urban areas, they can make a significant contribution to industrial development;

(e) they can make certain essential banking facilities such as remittance of funds etc. available in areas which may not be considered suitable for commercial banking and to persons who may not be able to get such facilities from commercial banks; and

(f) they can provide intelligent, experienced and active leadership to the cooperative movement including the central and apex cooperative banks which, in view of their federal character,, draw their directors from member institutions.

5.5 A similar role, though in a more restricted context, is played by employees cooperative credit societies. For instance, (a) members are taught the habits of thrift and self help, (b) surplus funds can go to the development of agricultural and other sectors of the cooperative movement, (c) they provide credit on reasonable terms, the lack of which would have driven salaried men to paying exorbitant rates to non-cooperative agencies (d) they can provide for the welfare of ~~the~~ members and ^(e) they also provide to the active leadership of the cooperative movement.

OBJECTIVE

5.6 Our major recommendations is that the promotion of non-agricultural credit societies including urban cooperative banks and employees credit societies are taken upon^{an} effective and systematic basis with clear objectives in view. We have, in our report, mentioned that in 1951 the percentage of urban population covered was 18%. In 1961, the percentage rose to 23 percent representing an increase of 61% over a period of ten years. We feel that with effective steps taken for the promotion of such cooperatives, it should be possible to increase the coverage to 50% of the urban population in 1971, or by the end of the fourth plan. It is estimated that the urban population in 1971 will be 105 millions; assuming that each family consists of 5 persons, only one of whom could become a member, the total membership of non-agricultural credit cooperatives should be 105 lakhs by that year as compared to about 50 lakhs in 1961.

5.7 In the absence of relevant data it is difficult to indicate the number of institutions which would have to come up to cater to 105 lakh members. We may estimate that there will be at least 3000 towns in 1971. Of these, about 150 towns would have a population of over 1 lakh. We have recommended that each town should be covered at least with one urban cooperative bank and towns with a population of more than one lakh may have more than one cooperative bank. As such, the total number of urban banks necessary may have to be a little over 3000. Again, there is no reliable data regarding the number of employees and employing organisations in the country. We, however, recommend that immediate steps should be taken for setting one society in each organisation with 200 to 300 employees in the first stage and by the end of the fourth plan every organisation with more than 50 employees may be covered. In addition, other types of non-agricultural credit cooperatives such as cooperatives for particular vocations, or women's thrift societies etc. should continue to provide for the non-agricultural

PROMOTION

5.8 We have in our report tried to examine and recommend measures in the field of training, cooperative law and audit and supervision which would help the growth of non-agricultural credit cooperatives. In addition, steps to be taken by such institutions or the cooperative structure to put them on a sound footing have been indicated. In this context, it is important to have a specific agency for the promotion of such cooperatives. We have given considerable thought to the problem. It was suggested in a few quarters that such cooperatives should have an apex organisation which would encourage their growth. We have already mentioned the problems that would result in a separate cooperative credit structure being established at the present stage of development. A purely promotional federation may also duplicate the functions of state cooperative unions and may at the same time create an additional financial burden on its constituents. Where, however, a certain amount of concentrated and intensive development has taken place, it may be considered by the societies whether their activities would be facilitated by having a federation which would act as a clearing house for thinking on the subject and would be their advocate in the solution of problems specifically relating to them. There is already a banking association functioning in Maharashtra and, it is understood, a union of employees' credit societies in Jamshedpur, which are rendering useful service to their constituents. We would not however, set targets for the organisation of such federations. It would be preferable to let them come up as the natural outcome of the needs and desires of member societies and at a time when they would be able to support such organisation to, at least, an extent.

5.9 In the meantime, the burden of promotion of non-agricultural credit cooperatives should fall on the state

cooperative unions, as promotional and educational organisations and on the state cooperative banks, as the apex institutions for credit societies. For a considerable time to come however, particularly in cooperatively underdeveloped states, the Registrar of Cooperative Societies will have to continue to shoulder the major responsibility and initiative in this regard. For this purpose, his office will require to be strengthened. Considering the coverage of non-agricultural credit cooperative societies and the large finances involved in the resources and loaning operations of such societies, it would be advantageous if a Joint Registrar or a Deputy Registrar could be appointed in each state specifically for the purpose of the regulation and development of the non-agricultural credit sector with necessary staff under him.

5.10 From the initial stages already, however, the state cooperative union and the state cooperative bank should be closely associated with the drawing up of the programme for the expansion of this sector, so that the work may be transferred to them as and when their position is sufficiently strong. We would, therefore, recommend that, as an immediate step, a committee should be formed in each state consisting of the Registrar of Cooperative Societies (or the Joint or Deputy Registrar in charge of the non-agricultural credit societies) and representatives of the state cooperative union and the state cooperative bank. The functions of this committee should be to assess the working of urban cooperative banks and of employees credit societies in the state; to lay down a programme for weeding out such institutions as cannot be strengthened; to formulate the state plan for the organisation of non-agricultural credit societies and the expansion lines of their membership and activities on the recommended by us, with such modifications and changes as local conditions may require; to take steps to see that all concerned organisations play their part in the implementation of the plan for the development of non-agricultural credit cooperatives, and to carry out annual reviews of the progress of cooperatives in the non-agricultural credit sector.

Sd/-

V.P. Varde

P. Natesan

P.R. Chakravarty

B.K. Goswami

Bhola Nath Chopra

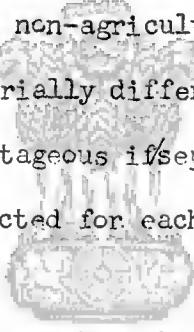
R. Mazumdar

Dated New Delhi 19th December, 1963.



SUMMARY OF RECOMMENDATIONS

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
1.	2.24 & 2.25	Non-agricultural credit cooperatives comprise three distinct types of societies i.e. (a) urban cooperative banks, (b) employees cooperative credit societies, including factory workers credit societies and (c) other types of such societies e.g. those catering to a particular profession or community etc. The objectives, working and problems of these types of non-agricultural credit societies are materially different. It would therefore be advantageous if separate statistics could be collected for each type of society.



नियमित व्यवस्था

Urban cooperative banks

2. 3.2 & 3.5 A uniform definition of urban cooperative banks should be adopted so as to facilitate implementation of a national policy for the development of such institutions. It is recommended that the definition should include the following features:-

- (a) a credit cooperative registered under the state cooperative societies act in urban or semi urban areas;
- (b) a minimum paid-up share capital of Rs.50,000; and
- (c) provision of banking facilities e.g. accepting for the purpose of lending or investment of deposits from members and non-members repayable on demand or otherwise and withdrawable by cheque, draft, order etc.

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
3.	3.7	Each state should assess the scope for the establishment of urban cooperative banks in new townships as well as in different parts of existing municipalities or taluka towns in the state with a view to organise such institutions. They should be organised in all towns and in every town with a population over one lakh, the possibility of organising additional urban cooperative banks may be considered.
4.	3.8	It would normally be advisable for an urban cooperative bank to restrict its area of operation to the municipality or the taluka town where it operates. However, in the surrounding rural and semi-urban areas, persons who may not be able to get credit from the primary agricultural credit society may be allowed, with the permission of the Registrar, to become members of the urban bank in the neighbouring town, as a special case.
5.	3.9	At present, more than one urban bank functions in the same town in the same area of operation. As coverage has not been very extensive, there has been no difficulty in this regard. When coverage becomes more intensive and competition for deposits increases, it may be advisable, if necessary, to restrict the area of operation to certain wards or zones or categories of persons so that there is no overlapping of jurisdiction of the different banks.
6.	3.10	Efforts to enrol a larger number of members are necessary.

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
7.	3.12	No dogmatic restriction should be laid down as to the size of urban banks. It should provide a strong base for raising adequate resources so that reasonable demands can be met, an efficient and progressive management may be employed and confidence created amongst the depositors. It should aim at a minimum membership of 1500. At the same time the possibility of reducing the control of the individual member over the society and its policy should be avoided.
8.	3.13	Generally, membership of urban banks should be open to all persons competent to contract and residing in the area of operation.
9.	3.14	Urban banks should not, in future, be organised on a communal basis and existing societies so organised should suitably amend their bylaws to throw their membership open to all communities. Watch should also be kept to ensure that these bylaws are given effect to in practice.
10.	3.15	Membership of urban banks should not be restricted to landholders only.
11.	3.16	Ordinarily, there should not be more than one class of members in an urban bank. The practice of nominal membership should be done away with. Where nominal membership is to be provided to assist those unable to purchase shares in the initial stages, it should be ensured that this is only a temporary feature and the constituents become full members in the course of a few years.

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
12.	3.17	Exception may be made in the case of such persons as are not eligible to be members but who may have some interest in the property which a member may offer as security for loan from the bank. Such a person may be eligible to become a nominal member.
13.	3.18	It is essential that the meeting of the general body should be held every year and effective participation of the members encouraged. The audit report should be submitted so as to ensure that the meeting can be held within three months of the close of the cooperative year. In exceptional cases, the period may be extended for another three months. The Registrar should exercise his statutory powers to ensure that such meetings are held.
14.	3.19	Normally, even in the case of large urban banks, there are no practical difficulties in the holding of the meetings of the general body. However, if and when the general body meeting becomes unwieldy due to the number of members becoming very large, the possibility of holding meetings of the representatives of the members rather than of all the members themselves can be explored.
15.	3.20	In order to have an active and intelligent membership, programmes of education and training may be taken up by the national and state unions as follows:- (a) suitable literature should be brought out by the national or state cooperative union in English or the regional languages;

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
		(b) Quarterly meetings may be held where members may get an opportunity to arrive at an understanding of the functions of the institution and at which gatherings leading cooperators or officials of the cooperative departments may be invited; and
		(c) study tours to good urban cooperative banks functioning in different parts of the country may be arranged.
16.	3.22	Elections to the board of directors may be held once in three years or each year or by rotation for one third of the board. The latter system is generally more desirable.
17.	3.23	There should be regular election code under the state cooperative act or the bylaws of the society providing for nominations and voting by secret ballot.
18.	3.24	The programme of education of members is important to encourage the emergence of new leadership.
19.	3.25	Efforts should be made to enroll depositors as members so that they may have an equal voice in electing a board in which they may have confidence.
20	3.26	The educational programme for members may be extended to directors. In addition, national or state cooperative unions may hold periodical seminars or discussions for them
21.	3.29	With the opening of new urban cooperative banks in all towns and municipalities, increasing efforts will have to be made to extend membership and secure adequate share capital.

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
22.	3.30	The value of shares should be reasonable and within the means of the majority of members. Rs.10 appears to be adequate; where necessary provision may be made for share money to be paid in instalments.
23.	3.31	The bylaws of most urban cooperative banks provide that a borrowing member must contribute to the share capital of the bank in a definite proportion of the amount borrowed in case of personal loans. This is conducive to the building up of owned funds.
24.	3.32 3.33 & 3.34	The state may participate in the share capital of new banks or of such urban banks as require immediate strengthening of their owned funds position. This should be done only in the case of real need and as an exceptional measure. The state may contribute upto Rs.25,000 on a matching basis in order to make up a minimum level of share capital not less than Rs.50,000 per urban bank as early as possible. The share capital contributed should be retired within a period not exceeding 10 years. The state may safeguard its financial interests in the institution by nominating upto 3 directors but not exceeding one third of the total number of directors on the board. For this purpose, nominees may be chosen from amongst competent non-officials rather than officers from the cooperative department.

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
25.	3.35	Urban banks, when they receive deposits on current account should carry to the reserve fund at least 1/4th of their existing profits till it equals the paid up share capital and thereafter it may be less.
26.	3.36	Specific provision in the bylaws of urban banks should be made for creating a reserve for bad and doubtful debts and contributing to it every year. The provision for bad and doubtful debts need not be disclosed and may be made before arriving at net profits and not out of net profits.
27.	3.37	Members may voluntarily agree not to take any dividend for two or three years so that the resources may be increased or they may agree to convert their dividend as additional share capital. In state partnered institutions, if dividend is declared, the amount may not be drawn and the institution may be permitted to utilise it for the reserves.
28.	3.40	More intensive efforts may be required to attract deposits. The following methods are suggested:- (a) a sustained campaign to educate the members to avoid waste and contribute their savings to cooperatives is necessary; (b) facilities of withdrawal of savings deposits by cheque should be provided. Special schemes e.g. home savings, safe deposits, day deposits, recurring deposits etc. may be introduced. They may also accept provident fund deposits and security

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
		(c) a good building should be provided as it will go a long way to enhance the prestige of the institution and promote confidence not in its depositors. State governments should help them in securing land for constructing or expanding their buildings;
		(d) where necessary, urban banks may revise their interest rates to bring them on par with the interest rates paid by commercial banks in addition to offering such facilities as commercial banks offer to their clients;
		(e) other facilities as may be of convenience the to the members may be provided e.g. bank may be kept open before or after the normal hours, a special time may be set aside for women members, arrangements to receive cash etc. in the safe deposit vault at night etc. may be made;
		(f) attempts to enrol depositors as members may be made;
		(g) state participation, in such cases as necessary, would have the added advantage of inspiring confidence among depositors in the initial stages;
		(h) the question of insuring or guaranteeing deposits of urban banks may be considered;
		(i) well run urban banks should be allowed to receive the investment of surplus funds of local bodies, educational institutions etc.

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
		(i) and restrictions in this regard if any should be removed;
		(j) while considering permitting commercial banks to open branches, the capacity of the urban cooperative bank in the area or its scope for development should be given due consideration.
29.	3.43	As a rule, urban banks should be affiliated to the central cooperative banks except in areas where there are no central cooperative banks, where they may be directly linked with apex banks. A certain amount of flexibility may be necessary due to the particular conditions of a locality.
30.	3.44	Central financing agencies should recognise the claims of urban banks as legitimate demands on them and it should be ensured that such banks are given the loans and overdrafts required from time to time. For this purpose, a special section should be created in the central financing agencies and the apex, cooperative banks to safeguard the interests of the non-agricultural credit cooperative sector and representation should be given to this sector in the board of directors. Such sections should be specifically charged with the development of non-agricultural credit societies.
31.	3.45	The Reserve Bank of India, the State Bank of India or the Life Insurance Corporation may have to step in and extend necessary
	3.46	

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
		credit facilities at reasonable rates of interest, through regular financing agencies. The processes should be made as simple as possible.
32.	3.50	Where necessary the bylaws of urban bank should be amended to provide for the requirements of urban and semi urban areas e.g., small scale industry, housing etc.
33.	3.55	Urban banks should not normally lend for periods exceeding five years. Where however the surplus long term resources of any urban bank justify the granting of such loans, it may move the Registrar to address the government for relaxation of the rule.
34.	3.56	Urban banks should go into the purpose for which loans are required, scrutinise their genuineness and, where possible, help the member to reduce his borrowings. For this task, a committee of members who could come from different areas or constituencies and may have personal knowledge of the borrowing members, may be formed. The society may also consider paying to the creditors of the members directly, with his permission, in so far as it is practical.
35.	3.57	The lending policy of the urban bank should be more imaginative and should be in keeping with the programmes of economic development. It should be production oriented and related to the repaying capacity of the borrower rather than security.

<u>Sl. No.</u>	<u>Para No.</u>	<u>Recommendation</u>
36.	3.60	In order to cover the risks of expanding loan operations for industrial purposes, a scheme for guaranteeing bank loans to small scale industries has been in force since July 1960. To bring urban banks within the scope of this scheme, either the state cooperative bank or the State Bank of India will have to the participate in the loans to the required extent. State governments should select certain cooperative banks and try the scheme on a pilot basis.
37.	3.61	The scheme for the utilisation of the services of urban banks for channelling
	3.62	government loans for small scale industries should be implemented on a pilot basis.
38.	3.63	Urban banks should adopt a sufficiently diversified loaning system. In addition to loans to small industries, loans upto limited amounts on personal noticing , larger loans on mortgage of real property or security of negotiable instruments may be made. Loans for consumption purposes should be largely connected with purposes promoting economic efficiency e.g., education, durable consumer goods etc.
39.	3.70	Arrangements for meeting requirements of long term loans in urban and semi urban areas should be made. Urban banks may open a separate section for giving long term loans on the security of houses.

<u>Sl. No.</u>	<u>Para No.</u>	<u>Recommendation</u>
40.	3.71	In order to raise long term resources, it would be necessary to obtain long term deposits. The Life Insurance Corporation should continue to give loans to such institutions on agreed conditions. It may be examined if the rate of interest could be more favourable.
41.	3.72	Efforts are necessary on the part of urban banks to diversify their activities. They may provide the facility of withdrawal of deposits by cheques, arrange for remittance of funds, collect money due to their customers, undertake regular payments for them, arrange for safe custody of valuables discount bills and hundis or run chit funds.
42.	3.73	The Reserve Bank of India may, after proper scrutiny, either give licences to suitable urban banks to deal in foreign exchange or allow commercial banks to share the commission with other urban banks so that the clients of the latter are not at a disadvantage.
43.	3.74	The combination of trading with banking should be avoided.
44.	3.75	The Registrar should prescribe uniform standards regarding the limits upto which urban banks can keep cash in hand or deposit the cash with any other banks. Proper arrangements for the safe custody of the cash should be made.
45.	3.80	The Registrar, in consultation with the apex cooperative bank, may prescribe minimum qualifications for the staff of employees of urban banks and service conditions should also be laid down.
46.	3.81	Managers of urban banks should take advantage of courses in cooperative banking organised by the

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
		Committee on Cooperative Training. They may also avail of the courses held by the Indian Institute of Banking.
47.	3.83	Inspection of urban banks should be undertaken at regular intervals. The machinery of the apex/central cooperative banks or the state government entrusted with inspections should be strengthened, if required, and it should be ensured that effective and educational inspection is carried out.
48.	3.84	The responsibility of supervision should be with the central financing agencies and there should be a phased programme for transferring the responsibility to them. However, whether it is with the department or with the central cooperative society banks, systematic arrangements for continuous and effective supervision must be made. The norms for appointment of supervisors recommended by the Committee on Cooperative Administration may be accepted.
49.	3.85	The norms recommended by the Committee on Cooperative Administration for appointment of auditors may be accepted. Audit of bigger institutions may be entrusted to professional auditors, of whom a panel may be approved by the state government. It should be ensured that audit is completed so as to enable urban banks to hold the general body meeting within three months of the close of the cooperative year. In large institutions, con-

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
<u>Employees cooperative credit societies</u>		
50	4.6	A review of all employing organisations may be carried out with the objective of covering all institutions having more than 200 to 300 employees in the initial stages. By the end of the fourth plan, every organisation with more than 50 employees and every mill or factory should have an employees cooperative credit society.
51	4.7	Normally, each institution should have a separate society. Institutions having more than one large department or branch or having an area of jurisdiction extending beyond one town may find it necessary to organise separate societies for branches or departments.
52	4.8	Efforts should be made to enroll all eligible members requiring the facilities of the society as its members.
53	4.9	Normally, membership should be thrown open to all permanent or quasi permanent employees and persons having served a minimum specified period which would indicate that they would be eventually confirmed. They may also be given loans and confirmed employees may stand sureties. The membership of retired employees may be continued till their liabilities to the society are discharged.
54.	4.10	Societies should be open to all classes of employees and no distinction should be made on the basis of category or grade.

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
		If more than one society is necessary in a very large undertaking, separate societies should be set up on the basis of area or branch rather than of class.
55.	4.11	Trade unions have an important role to play in the promotion and organisation of co-operatives of employees. However, membership/services should not be restricted to trade union members.
56	4.12	Audit should be completed within a specified period after the end of the cooperative year and the general body meeting should be called immediately thereafter as suggested for urban cooperative banks.
57	4.13	A society with 15,000 or more members or with an area extending beyond a town may hold its annual general body meetings under the delegate system.
58	4.14	Educational programmes similar to those

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
67.	4.22	Societies should introduce a compulsory thrift deposit fund which may be constituted by deductions from pay at the rates suggested by the Railway Board.
68.	4.23	Normally, the fund should not be withdrawable except when a member leaves the society or on his death. Where a member gives up his membership and withdraws his deposits, he should not be allowed to rejoin until after a specific period or until he has made up the amount

<u>Sl.No.</u>	<u>Para No.</u>	<u>recommendation</u>
		The education of members has importance in this connection.
62	4.15	The educational programme for members should be extended to directors. In addition, to seminars and workshops for directors of societies may be organised.
63.	4.16	In no case should the Registrar of Cooperative Societies or the state government nominate directors.
64.	4.17	Where a society desires to associate the management with its working, with a view to securing certain advantages, it should be possible to do so by making necessary provision in the bylaws. The bylaws should however specify that this arrangement should exist only in the initial stages and should be limited to a period of about three years.
65.	4.20	The value of shares is normally Rs.10 which appears reasonable. When necessary, this can be deducted in instalments from the pay of the employee.
66.	4.20	In some states, members are allowed to purchase only a very limited number of shares under the act or the bylaws. Excessive restrictions should be relaxed in order to encourage members to invest in shares and thereby increase the capital base of the society.

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
67.	4.22	Societies should introduce a compulsory thrift deposit fund which may be constituted by deductions from pay at the rates suggested by the Railway Board.
68.	4.23	Normally, the fund should not be withdrawable except when a member leaves the society or on his death. Where a member gives up his membership and withdraws his deposits, he should not be allowed to rejoin until after a specific period or until he has redeposited the money drawn.
69.	4.24	In order to safeguard the thrift deposit fund from attachment necessary provision should be made in the state cooperative societies acts on the lines of section 31 of the Maharashtra Cooperative Societies Act, 1960.
70.	4.25	Societies should encourage savings and augment their capital by introducing different types of savings and deposit schemes. Deposits may also be taken from ex members, temporary employees, relatives of members etc.
71	4.26	In order to encourage the formation of capital it may be considered whether the dividend earned by the members, in part or in whole, in the initial stages or regularly, could be placed in a special savings account. This, with accumulated interest, may be made available to the member after a specified period or when he leaves the society or to his family on his death.

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
72.	4.27	Employers should deposit their funds with the societies as far as possible.
73.	4.28	The societies should, as a normal rule, be affiliated to the central cooperative bank or, where there is no central cooperative bank, to the apex cooperative bank. In exceptional cases only, and with the permission of the Registrar of Cooperative Societies and the apex cooperative bank, it may be affiliated directly to the apex bank.
74.	4.28	Central financial agencies should recognise the claims of societies as legitimate and give them reasonable credit facilities whenever necessary.
75.	4.29	The societies should normally use central cooperative banks as their bankers. Such long term investments as the societies may be in a position to make should preferably be in the form of debentures floated by central land mortgage banks.
76.	4.30	Wherever necessary, the employers or government should make a working capital loan upto Rs.15,000 available to the societies at a reasonable rate of interest, payable in 10 years. This may be made contingent on a provision in the bylaws of the society for compulsory thrift deposits.
77.	4.31	Registrars should review the position regarding the standards of fluid resources and prescribe and enforce the rate of fluid resources on the lines suggested by the Study Group on Cooperatives under Railways and Posts and Telegraphs Department.

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
78.	4.34	<p>The lendings of the societies should be more closely related to the purpose and to the repaying capacity of the member. The loan application should be detailed and indicate, among other things, the purpose for which borrowing is necessary and also previous commitments. There should be careful scrutiny of the correctness of the statement. Members of the managing committee may make discreet enquiries or there may be a committee of members to scrutinise the applications and recommend whether the loan should be given and whether the amount be within the repaying capacity. The members of the committee may represent different branches so as to have some personal knowledge of the loan applicants.</p>
79.	4.35	<p>There should be scrutiny of the manner in which the loan amount has been spent. It may be possible in certain cases for a society to make payments direct to the creditors with the permission of the member.</p>
80.	4.36	<p>Societies should review the rates of interest charged on loans from time to time to keep them reasonable. The quantum of monthly instalments should not exceed a certain percentage e.g. ordinarily one third of the basic pay.</p>
81.	4.37	<p>Demands for increase of the maximum amount of loan or of the number of instalments in which it should be repaid, should be examined carefully by the managing committee</p>

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
		before agreeing to any relaxation. Larger loans may lead to increase in the indebtedness of the member and exhaust his repaying capacity. Loans for longer periods would also have to be covered by long term resources.
82.	4.38	All societies may consider having a provision for emergency loans to meet the needs of the members for emergent purposes.
83.	4.39	All steps should be taken to see that loans are sanctioned without delay. The managing committee should meet regularly to sanction the loans or, if this is not possible, it should delegate the function to a sub committee of the managing committee.
84.	4.40	Generally, various state cooperative societies acts or rules include a provision whereby, on execution of the requisite agreement, the employer is legally bound, if so required by the society, to make deductions
	4.41	of the society's dues from his employee's salary bills. A certain amount of difficulty arises in the case of societies whose members may be transferred outside the state. A multi unit society would be able to recover the dues from the debtor residing in any other state to which its objects extend. In the case of other societies, state governments should have suitable provision included in the state cooperative societies acts to the effect that the existing provision relating to deductions from salary to such a society's claim would be made applicable also to other states.

86. 4.44 Instead of the society running a consumer store, it would be advisable to set up a separate consumers store which can be assisted under one of the schemes of the Government of India.

87. 4.44 The societies may however (a) grant loans to members for placing the money as trade deposits in the consumers cooperative stores, (b) make arrangement with the consumer stores under which an authorisation may be given to a member to purchase consumer goods on credit, the amount being debited against him as a loan by the credit society to be repaid in convenient instalments. Where such arrangements are made with private dealers, it should be ensured that they are recognised dealers charging fixed prices and that there is no possibility of favouritism or malpractice.

88. 4.45 Provision of housing facilities is not the legitimate function of credit societies as such operations require long term investment and are likely to benefit only a small number of members. Separate housing cooperatives can be set up for the purpose. Employees cooperative credit societies can advance loans for the building or repairing of houses provided they are repaid within a stipulated period.

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
89.	4.46	<p>The undertaking of welfare work should be an objective mentioned specifically in the bylaws of cooperative societies. part of the profits should be set aside for welfare activities such as (a) societies may secure life insurance business from its members as agents of the Life Insurance Corporation. The amounts earned by way of commission may be kept in a fund for welfare activities; (b) holiday homes may be purchased for the members. It should be ensured that full use will be made of the homes; (c) educational schemes should have a priority - free books, scholarship etc. may be given to children of needy members; (d) training programmes for the families of the employees in crafts or skills, which would help in augmenting their income, may be organised; (e) libraries may be maintained, recreational activities undertaken, (f) a bureau of trained experts for giving advice on law, medicine, etc. could be maintained (g) interest free loans or grants may be given in cases of distress.</p>
90.	4.47	<p>The possibility of entrusting the collection and running of benevolent funds to employees cooperative credit societies may be examined and any contributions or loans given by the employers for the purpose may be made to the society.</p>
91	4.49	<p>Employers should make minimum staff available to the societies in the initial stages for about three years or provide managerial subsidy.</p>

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
92	4.50	Short term courses may be held for the staff of the societies in regional training centres. It would be helpful if they could be shown some successful employees cooperative credit societies.
93.	4.51	The staff of the societies should have pay and service conditions commensurate with that of the members from their employers. There should be a regular code for recruitment and service conditions.
94.	4.52	In Madras, employees of cooperatives have organised a separate credit society. This may not be practical in all towns. Therefore, the staff of the society may be eligible to become members and to borrow, with such safeguards as may be necessary.
95.	4.53	Recommendations relating to inspection, supervision and audit in respect of urban cooperative banks may also be implemented for employers cooperative credit societies.
96.	4.54	Employers should give certain assistance and facilities to societies i.e. (a) they should be recognised as an essential part of the welfare activities of the undertaking and a sympathetic and helpful attitude should be adopted; (b) adequate furnished accommodation should be provided together with free electricity, water, etc. (c) for the initial period of three years, clerical assistance may be made available or managerial subsidy

<u>Sl.No.</u>	<u>Para No.</u>	<u>Recommendation</u>
		provided; (d) working capital loan upto Rs.15,000 free of interest may be given to new societies, to be recovered in a period of 10 years; (e) deductions from the pay sheets of members of dues of the society should be effected. No commission should be charged for this. Recoveries should be made over to the society by them cheque rather than by liquid cash where the society so desires; (f) the managing committee members etc. may be allowed to absent themselves for attending society meetings, touring etc. They may be allowed to use departmental transport where available, on normal or concessional rates.
97	4.55	Labour/welfare officers may be given short orientation courses in cooperation and its application to employees or workshops or may be seminars held. Schools of social work and labour management institutes should have a course on cooperation with reference to its application to employees and labourers.
		<u>Promotion of non-agricultural credit cooperatives</u> 5.6 The promotion of non-agricultural credit societies should be taken up on an effective and systematic basis. By the end of fourth plan coverage should increase to 50 per cent of the urban population i.e. there should be about 105 lakh members of such societies.

<u>Sl.No.</u>	<u>Page No.</u>	<u>Recommendation</u>
99	5.7	Each town should be covered with at least one urban cooperative bank and towns with a population of more than one lakh may have more than one urban cooperative bank i.e. there should be a little over 3,000 urban cooperative banks at the end of the fourth plan.
100	5.7	Immediate steps should be taken for forming an employees cooperative credit society in each organisation with 200 to 300 employees and, by the end of the fourth plan, every organisation with more than 50 employees may be covered.
101	5.7	Other types of non-agricultural credit societies should continue to provide for the non-agricultural population.
102	5.8	Where a certain amount of concentrated and intensive development has taken place, federations may be set up. They may be allowed to come up as the natural outcome of the needs of the societies and at a time when they would be able to support such organisations to at least a certain extent. No targets need therefore be set for their organisation.
103	5.9	The burden of promotion of non-agricultural credit societies should fall on the state cooperative unions and the apex cooperative banks. For a considerable time, the Registrar will have to shoulder the major

<u>Sl. No.</u>	<u>Para No.</u>	<u>Recommendation</u>
responsibility in this regard. His office may therefore be strengthened and a Joint Registrar or a Deputy Registrar appointed in each state specifically for the purpose of the regulation and development of the non-agricultural credit sector, with necessary staff under him.		
104	5.10	As an immediate step, a committee should be formed in each state consisting of the Registrar of Cooperative Societies (or the Joint Registrar or Deputy Registrar in charge of non-agricultural credit societies) and representatives of the state cooperative union and the state cooperative bank. The functions of this committee will be (a) to assess the working of non-agricultural credit societies, (b) to lay down a programme of weeding out such institutions as cannot be strengthened, (c) to formulate a state plan for the organisation of non-agricultural credit societies and expansion of the membership and activities on the lines recommended by us, (d) to take steps to see that all concerned organisations play their part in the implementation of the plan, and (e) to carry out annual reviews of the progress of cooperatives in the non-agricultural credit sector.

Appendix I

(To be published in the next issue of the Gazette of India
Part I - Section I)

Government of India
Ministry of Community Development and Cooperation
(Department of Cooperation)

Krishi Bhavan,
New Delhi, the 31st May, 1963.
10th Jyaistha, 1885.

NOTIFICATION

No. 8-3/63-Cord.

Non-agricultural credit societies consisting of urban cooperative banks and employees' credit societies have made remarkable progress in some states but the development of such societies in the country has been uneven. These societies are the most suitable agencies for serving the credit needs of the urban middle-class and there is considerable scope for expanding their activity. It has therefore been decided to appoint a study group to examine the working of cooperatives in the non-agricultural credit sector and to suggest measures to ensure their sound and speedy growth.

The study group will consist of the following :-

1. Shri V.P. Varde, Chairman
Chairman,
Sarswat Cooperative Bank Ltd.,
Girgaum, Bombay.
2. Dr. P. Natesan, Member
Chairman,
George Town Urban Cooperative
Bank, Madras.
3. Shri P.R. Chakravarty, M.P. "
4. Shri Bholu Nath Chopra, "
Secretary, Railway Clearing
Accounts Office,
Employees Thrift & Credit Society,
Kishan Ganj, Delhi.
5. Shri Bejoy Krishna Goswami, "
Secretary,
Calcutta Telephone District
Cooperative Society Ltd.,
Calcutta.
6. Miss Roma Mazumdar, Member-Secretary
Deputy Secretary,
Ministry of Community Development
and Cooperation,
New Delhi.

The terms of reference of the study group
will be as follows:-

- (a) to examine the present patterns of organisation and working of non-agricultural credit societies including urban cooperative banks and employees' credit societies;

- (b) to recommend specific measures for their promotion and development on sound lines;
- (c) to indicate programmes and physical targets for the organisation of such cooperatives during the third and the fourth plan; and
- (d) to recommend steps for close inter-relationship between cooperatives in this field with other fields of cooperative activity e.g. the cooperative banking structure and industrial cooperatives.

The study group may visit states for collecting information and for recording evidence of both officials and non-officials.

The study group shall report as early as possible.

Sd/- M.R. Bhide
Secretary to the Government of India.

To

The General Manager,
Government of India Press,
New Delhi.



Copy forwarded to:-

- 1) All State Governments (Department of Cooperation)
- 2) All Ministries and Departments of the Govt. of India.
- 3) Lok Sabha Sectt./Rajya Sabha Sectt./Department of Parliamentary Affairs.
- 4) Planning Commission, New Delhi.
- 5) Reserve Bank of India, Bombay-1.
- 6) State Bank of India, Bombay-1.
- 7) All Members of the Committee.
- 8) All Officers in the Deptt. of Cooperation.

Sd/- R. Mazumdar
Deputy Secretary to the Govt. of India.

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Appendix II

QUESTIONNAIRE FOR COOPERATIVE URBAN BANKS

1. What should be the area of operation of an Urban Bank?

Should it comprise of the entire urban area or be restricted to certain divisions on population or other basis?

2. Is there any overlapping of the jurisdiction of more than one urban bank?

If so, how can such overlapping be avoided?

3. What is the composition of membership?

What are the classifications and the particulars and privileges of each class?

4. What percentage of population in the area of operation is served?

5. What should be the value of each share? What is the maximum number of shares that could be allotted to each member?

Do you consider such restriction is necessary?

6. Could you offer any other suggestion to strengthen the share capital?

7. How are general meetings of the members held?

If the membership is unwieldy, do you think a representative general body consisting of elected members from several groups based on regions or other criteria could be empowered with all or some of the powers of the general body?

8. What should be the quorum for the general body meeting?

What should be the minimum number of members to sign the requisition to call an extraordinary general meeting?

9. What should be the composition of the Board of Directors?

10. A large number of persons having a small stake in a bank because of purchase of a share or shares have a controlling voice over the funds of the depositors. What measures would you suggest to safeguard the interest of the depositors? In what way can an effective voice be given to the depositor in the management? Should a percentage of the managing committee be reserved for members holding a certain amount of deposits? If so, what percentage and what amount would you suggest?
11. State upto what extent delegation of powers of the general meeting should be made in favour of the Board of Directors? How often should the meetings be held?
12. Should all the members of the committee be elected at the same time or should a percentage retire every year and election held for the retiring directors alone? What would you suggest for filling up interim vacancies?
Should it be done by election or co-option?
13. What are the other functions you would suggest for an urban bank to make it more popular, besides accepting deposits?
14. Does the bank provide facilities such as withdrawal of deposits by cheques, remittance of funds, collection of cheques?
Is discounting of bills done?
15. What are the various types of deposits tapped to build up working capital? Are you able to tap sufficient deposits to meet the loan requirements of members? If not, how do you manage to satisfy the needs of your members?
16. Suggest ways and means for tapping more deposits. Examine whether the introduction of daily deposits and Chit Fund Scheme is feasible.
17. What are the rates of interest offered on various kinds of deposits for various periods?
Do you feel that the rates are attractive enough to canvass deposits?

18. Is there any competition for deposits from
(a) joint stock banks,
(b) central cooperative banks, and
(c) other urban cooperative banks.

What measures would you suggest to counteract such competition?

Should Government or the Reserve Bank of India take any steps in this direction?

19. What should be the periods and rate of interest for fixed and recurring deposits?

20. Is Government guarantee for deposits necessary?

21. Are the financing agencies able to satisfy your requirements, and if so, to what extent?

If the financing bank is not able to meet the requirements what is the alternative suggestion for obtaining funds?

22. Do you consider the restriction to borrow not exceeding the lending rate of the Central Bank desirable? State reasons.

23. What is the present maximum borrowing limit for the bank? Do you suggest any alteration? If so why?

Is the maximum borrowing power a limiting factor in obtaining the required funds from the Central Bank? Is there any difficulty in enhancing it suitably?

24. Are your funds permanently in surplus over the needs of the members? If so, what arrangements have you made to invest the surplus funds?

25. What is the standard and form of fluid resources to be maintained?

Do you suggest any changes?

26. How many types of loans are given?

What is their purpose?

27. On what security are loans advanced? Do they constitute any difficulty in obtaining loans?
28. What is the individual maximum borrowing power in respect of different types of loans and how is this arrived at; e.g. surety, mortgage, jewel, deposit, loans etc.
29. State how the borrowing of members on several types of loans are linked with their share capital.
30. What is the percentage of borrowing members to the total number of members?
31. What is the average loan per member?
32. Do you approve of the disbursement of loans by cheque or by cash?
33. What is the normal time taken for the members to obtain different types of loans from the urban bank?
If the time taken is in your opinion ~~is~~ too long what changes in the procedure would you suggest to reduce the time lag?
34. What are the rates of interest charged on loans? Is there any provision for charging penal interest in the event of default of payment of principal?
If so, mention the rate.
35. Do you think that the present limit upto which surety loans are given to members is adequate?
If not, what enhancement in the limit would you suggest?
36. Describe the mode of valuation of jewels and house properties.
37. Are there any arrangements for the periodical revaluation of mortgaged properties?
If not, why should it not be enforced?
38. What is the present period of repayment of different loans? Do you feel that the periods are congenial for recovery? If not what should be the period of repayment for different types of loans? In case, the period is extended would it be possible to cope with the available resources?

39. What are the arrangements made for exercising supervision over the utilisation of loans advanced to members?

Could this be improved?

40. What are the arrangements made for the recovery of loans advanced to members?

Do you find ~~such~~ arrangements effective?

41. Are there overdues from the members?

What is the present percentage of normal overdues? What are the reasons for the overdues?

42. What are the steps taken for the recovery of overdues? Are they effective? If not, offer suggestions to make them effective.

43. What are the arrangements made to safeguard the jewels in the custody of your bank? Are they adequate? Are the jewels periodically verified by the Directors?

44. What is the maximum limit of cash in hand? What are the arrangements for safe custody?

45. What is the margin between the borrowing and lending rate? Is it sufficient to work out at a reasonable profit?

46. What percentage is the cost of management to the working capital?

47. Are the interests of the employees of the urban bank being safeguarded by the management? If so, what special steps are being taken to ensure proper service conditions, promotion to higher posts, provident fund, gratuity benefits, etc?

48. Are all the employees appointed by the bank management? Is there any employee appointed from the Government?

49. What should be the qualifications of the staff employed?

50. What are the arrangements for the training of the staff in cooperative principles and procedure? Are they sufficient?

51. Do you approve of the scheme of organising a central service by the financing bank from which certain grades of officers of the urban bank may be drawn on foreign service terms?

52. What are the existing arrangements for the audit of the bank?
What is the scale of audit fees?
Do you have any suggestion to make with reference to audit?

53. What are the arrangements for (a) supervision, (b) inspection of the bank?
Are they adequate or would you suggest improvements?

54. Are there arrangements made for effective internal checking of accounts with a view to ensure correct maintenance of accounts to prevent fraud?

55. Is there or should there be a provision in the bylaws for creating a reserve for bad and doubtful debts and contributing to it out of net profits earned?

56. Is there any provision in the present State Cooperative Law restricting the progress of the urban banks? If so, what amendments would you suggest?

57. Are there any house mortgage banks exclusively in your area? Do you think there is any competition between the two banks? If so what is the remedy?

58. Do you require any assistance? If so state the nature of assistance required.

59. What are the difficulties encountered in the working of the urban bank? What are the suggestions for improvement?

Appendix III

QUESTIONNAIRE FOR COOPERATIVE EMPLOYEES' SOCIETIES

PART I

1. What should be the area of operation of the society?

Is there any overlapping of the jurisdiction of more than one society?

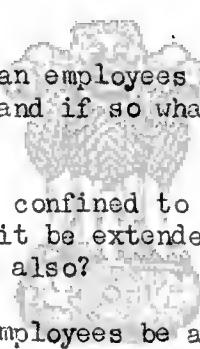
If so, how can it be avoided?

Should there be more than one society for an office with a certain number say 5000 employees or is one society preferable?

2. What is the composition of the membership?

Are persons other than employees admitted as members and if so what is their category?

Should membership be confined to employees or should it be extended to retired employees also?

Should unconfirmed employees be also admitted as members? 

3. What is the percentage of membership to the total number of employees?

4. Is there any employees' union in the office? Should there be any relationship between the union and the society?
Is there any need for the employees to be members of the union before being admitted as a member of the society?

5. What is the value of a share and number of shares which a member can own?

6. What is the liability of a member in case of any deficit in the assets of a society on liquidation?

7. How should general meetings of the members be held?

Should it be on the basis of each share holder or constituency?

Should voting be done by show of hands or by ballot?

8. What should be the position of the Board of Directors/Managing Committee?

Is there any provision for giving representation to different categories or departments?

To what extent should delegation of powers of the general meeting be made in favour of the Board of Directors?

9. Should a representative of the employers be ex-officio chairman of the society?
10. What should be the element of nomination by the employers?
11. Should the Registrar of Cooperative Societies or nominee of the Cooperative Department be an ex-officio members of the society and of the Board?

What is the present practice?

12. Is it necessary for the society to raise funds by way of loans from co-operative banks or can the society raise adequate finance in the shape of deposits?
13. What should be the period and the rate of interest for different types of deposits? Are the rates attractive enough to canvass deposits?
14. Is any guarantee on deposits necessary?
15. Should compulsory thrift deposits be deducted from the salaries of members? If so, are there any arrangements for deduction of such deposits?

What should be the scale of subscription for compulsory thrift fund?

16. Suggest ways and means for tapping more deposits. Is the introduction of a chit fund scheme feasible?
17. Are financial agencies able to satisfy your requirements?

If not what is the alternative for obtaining funds?

18. Do you suggest any alteration in the maximum borrowing power of the society?
19. What is the margin between the borrowing and lending rate? Is it sufficient to work at a reasonable profit?
20. Should there be an alteration in the maximum borrowing power of a member?
21. Do you consider the restrictions to borrow not exceeding the lending rate of the central bank desirable? State reasons.

21. Is there any possibility of granting loans on the security of thrift deposits where the thrift depositor is not indebted to the society either as principal borrower or as surety?
22. Do you consider the grant of pay security loans recoverable in full from the next month's salary necessary?
23. Do you consider the grant of more than one loan necessary?

Suggest the intervening period between one loan and another and the maximum number of loans that a member can have at a time?

24. Do you grant loans consolidating previous loan outstanding of a member who is not a defaulter?

Is it desirable?

25. What are the policies and procedures in regard to grant of surety loans?

What should be the period of repayments of surety loans?

26. Is there any case where loans were refused to members due to paucity of funds?

27. What is the procedure for disbursement of loans and what is the average time taken to disburse a loan?

28. How many types of loans are given? What is their purpose, their duration and the interest they carry?

29. Is there any machinery for supervision of utilisation of loans by

- (a) the society,
- (b) the employers, and
- (c) the cooperative department?

30. What is the procedure adopted for recovery of loans?

Are monthly demand lists prepared?

31. What is the procedure adopted in regard to recovery of loans on transfer of employees?

32. Are facilities for the deduction of instalment of loan available from the salaries of employees?

not exceed
of the member's salary.

34. Does the employer give sufficient priority to recovery of loans from their employees salary etc. when employees retire, resign or otherwise leave the service?
35. Does the state cooperative law provide for compulsory recoveries of societies dues? Is there any provision for reciprocal execution of decrees between your and other states?
36. Do you obtain security from the employees of your society? Give details.
37. Does the society give loans to members for making trade deposits in consumers stores or honour credit chits of approved consumers stores or recognised dealers?

Is there any difficulty in this regard?

38. Should the society finance the staff of cooperative stores, cooperative housing societies, etc.?
39. Is it running a consumer store or fair price shop?
If so, give details?
40. What type of business other than credit is being done or should be done by the society?
41. Should the society undertake deposit and normal banking business like joint stock banks and commercial business to attract capital? If so, upto what extent should such business be undertaken?
42. Would it be possible for the society to act as an agent of the Life Insurance Corporation and undertake life insurance business?
43. Does the society take up welfare activities as a part of its work?
44. What should be the standard and form of the fluid cover to be maintained?
What is the present arrangement for maintaining the fluid cover?
45. If the society has surplus funds, how are they being invested? Is this being done profitably?
46. Is any investment made in debentures of central land mortgage banks?

47. Is the society affiliated to the State Cooperative Bank?
48. What is the system for effective internal check with a view to ensuring proper maintenance of accounts?
49. Do you obtain confirmation of assets and liabilities of members once a year?
50. Do you issue receipts or passbooks or both to members for amount received from them?
51. When was the society last audited?
52. What is the arrangement for (a) audit, (b) supervision and (c) inspection of the working of the society?

What improvements would you suggest?

53. What should be the qualifications of the secretary, manager, accountant etc. of the society?

What are the arrangements for training?

54. What steps are taken to safeguard the interests of the employees of the society by ensuring proper service conditions, promotion to higher posts provident fund benefits etc.?

55. Is any assistance given by way of accommodation by the employers or by the state government?

56. Is any other form of assistance given by the employers or state government such as (a) share capital contribution (b) managerial assistance, (c) working capital loans, (d) other amenities and concessions?

What assistance is required?

57. Is there any possibility of ~~existing~~ creating a federation or federations of such societies?

58. What are the difficulties encountered in the working of employees cooperative credit societies?

59. What are your suggestions for improvement?

PART II

1. Name of the society and date of registration.
2. Area of operation.
3. Objects of the society.
4. Membership during the last three years 1959-60 1960-61 1961-62
5. Owned Funds:
 - (i) Paid up share capital
 - (ii) Reserve Fund
6. Other Reserves and funds
7. Borrowings:
 - A. Deposits
 - (i) Fixed
 - (ii) Savings
 - (iii) Current
 - (iv) Compulsory Thrift
 - (a) Members
 - (b) Non-members
 - B. Borrowings from Cooperative Central Bank.
 - C. Other borrowings
(please specify)
8. What is the rate of interest paid on deposits and borrowings?
9. What is the maximum borrowing power of the society?
10. What is the individual maximum borrowing power?
What is the total indebtedness of a member by way of loan and surety?
11. Business (Loans) (Rs. in lakhs)
1959-60 1960-61 1961-62
 - (a) Amount outstanding at the beginning of the year.
 - (b) Amount advanced during the year.

(Rs. in lakhs)

1959-60

1960-61

1961-62

(c) Amount recovered during the year.

(d) Amount outstanding at the end of the year.

(e) Amount overdue at the end of the year.

(f) Of the figure in column (c) above:

- (i) Overdue for over one year
- (ii) Overdue for over three years.
- (iii) Overdue for over five years.

(g) Percentage of overdues to:

- (i) Demand
- (ii) Outstanding

12. Percentage of borrowing members to the members.

13. Average loan per member.

14. Nature of security taken for the loans.

15. Rate of interest charged from borrowers.

16. What is the period for which loans are sanctioned?

17. Are loans issued on other than personal security?

18. Profit earned or loss sustained during the past three years.

APPENDIX - IV

PERSONS AND INSTITUTIONS FROM WHOM REPLIES WERE RECEIVED TO THE QUESTIONNAIRES.

Employees Co-operative Credit Societies

1. The Ernakulam Government Servants Cooperative Society Ltd., Ernakulam.
2. The Simpson & Groun Companies Employees' Cooperative Credit Society Ltd., Madras.
3. Gun Carriage Factory Cooperative Society Ltd., Jabalpur.
4. The Calcutta Tramways Employees' Cooperative Credit Society Ltd., Calcutta.
5. E.& N.F. Railway Cooperative Credit Society Ltd., Calcutta.
6. The Bombay Mint Cooperative Credit Society Ltd., Bombay.
7. Educational Department Servants' Cooperative Credit Society Ltd., Nasik.
8. Thrift & Credit Society, Education Department, Faridkot..
9. The Dunlop Factory Employees' Cooperative Credit Society Ltd., Sahagunj.
10. Satara District School Board, North Division, Primary Teachers Sahakari Bank Ltd., Satara.
11. The Tisco Utkal Friends Cooperative Society Ltd., Jamshedpur.
12. The Madras Corporation Officials' Cooperative Bank Ltd., Madras.
13. Bombay City Police Cooperative Credit Society Ltd., Bombay.
14. Nandurbar Municipal Servants' Cooperative Credit Society Ltd., Nandurbar.
15. The Calcutta University Cooperative Credit Society Ltd., Calcutta.
16. The Madras State Transport Department Employees Cooperative Thrift and Credit Society Ltd., Madras.
17. The Tisco Open Hearth Cooperative Credit Society Ltd., Jamshedpur.
18. The Anantapur District Public Servants Cooperative Society Ltd., Anantapur.
19. Shree Sajjan Mills Employees Cooperative Society Ltd., Ratlam.
20. Martin Burn's Cooperative Credit Society Ltd., Calcutta.
21. The Andrew Yule's Cooperative Credit Society Ltd., Calcutta.

22. Bhandari Kamgar Sahkari Sanstha Ltd., Indore.
23. The Bilaspur Cooperative Employees Thrift Society Ltd., Bilaspur.
24. Burmah-Shell Employees' Cooperative Society Ltd., Madras.
25. The Bihar Police Cooperative Bank Ltd., Patna.
26. The Tisco Mills Combined Cooperative Credit Society Ltd., Jamshedpur.
27. The Hindustan Shipyard Staff Cooperative Society Ltd., Visakhapatnam.
28. Kilburn Employees Cooperative Credit Society Ltd., Calcutta.
29. The Finlay Mills Employees' Cooperative Credit Society Ltd., Bombay.
30. E.&N.E. Railway Junior Cooperative Credit Society Ltd., Sealdah, Calcutta.
31. Cochin Naval Base Civilian Employees Cooperative Credit Society Ltd., Cochin.
32. Air Corporations Employees' Cooperative Bank Ltd., Bombay.
33. The Treasury Buildings Cooperative Society Ltd., Calcutta.
34. The North Railway Cooperative Credit Society Bikaner Division Ltd., Bikaner.
35. Elgin Mills Workers Cooperative Society Ltd., Kanpur.
36. The Vizagapatam Port Employees' Cooperative Society Ltd., Visakhapatnam.
37. Central Bank of India Employees' Cooperative Society Ltd., Calcutta.
38. The Telco Cooperative Society Ltd., Jamshedpur.
39. South Eastern Railway Employees' Cooperative Urban Bank Ltd., Calcutta.
40. The State Bank of India Staff Association Cooperative Society Ltd., Calcutta.
41. East Indian Railway Employees' Cooperative Credit Society Ltd., Calcutta.
42. The R.M.S. (South Division) Cooperative Credit Society Ltd., Silchar.
43. Gauhati Polytechnic Employees Cooperative Thrift & Credit Society Ltd., Gauhati.
44. The Majoor Sahakari Bank Ltd., Ahmedabad.
45. Sibsagar Government Aided Bezbarua High School Cooperative Bank Ltd.,
46. Assam Oil Company Indian Staff Cooperative Society Ltd.
47. Railway Employees Cooperative Society Ltd., Jaipur.

48. The Posts & Telegraphs Accounts Cooperative Credit Society Ltd., Calcutta.
49. Hubli Municipal Borough Employees Cooperative Society Ltd., Hubli.
50. The Rajasthan Rajya Karmachari Sahakari Samiti Ltd., Kctah.
51. The Aircraft Employees' Union Cooperative Society Ltd., Bangalore.
52. The Andhra Secretariat Staff Cooperative Society Ltd., Hyderabad.
53. The Hindustan Shipyard Labourers Cooperative Thrift & Credit Society Ltd., Visakhapatnam.
54. I.L.T.D. Co. Staff Cooperative Society Ltd., Chirala
55. The Government Press Employees' Cooperative Credit Society Ltd.
56. Hungund Taluka Primary Teachers' Cooperative Credit Society Ltd., Dist. Bijapur.
57. Coorg District Police Departmental Staffs' Cooperative Credit Society Ltd., Mercara.
58. Tripura Government Employees' Cooperative Credit Society Ltd., Tripura.
59. Agartala Telephone Employees' Cooperative Credit Society Ltd., Agartala.
60. Agartala Radio Employees' Cooperative Credit Society Ltd.
61. The Govt. Employees Sonamura Cooperative Credit Society Ltd.
62. Belonia Govt. Employees Cooperative Credit Society Ltd.
63. Kailashahar Govt. Employees Cooperative Credit Society Ltd.
64. The Kanara Ceramics Ltd., Employees Cooperative Society Ltd.
65. Lokanath Workers & Employees Cooperative Society Ltd.
66. Tellicherry Public Servants' Cooperative Society Ltd.
67. The Cannanore Public Servants' Cooperative Society Ltd.
68. Cannanore Municipal Employees Cooperative Society Ltd.
69. Cannanore Cantonment Fund Employees Cooperative Society Ltd.
70. Central Coconut Research Station Kasaragod Employees Cooperative Society.
71. The Cannanore Municipal Inferior Employees Society Ltd.
72. Sherthallai Government Servants' Cooperative Society Ltd.

Urban Cooperative Banks

1. The Palghat Cooperative Urban Bank Ltd., Palghat.
2. The Coonoor Cooperative Urban Bank Ltd., Coonoor.
3. The Salem Urban Cooperative Bank Ltd., Salem.
4. The Calicut Cooperative Urban Bank Ltd., Calicut.
5. The Guntur Cooperative Urban Bank Ltd., Guntur.
6. The George Town Cooperative Bank Ltd., Madras.
7. The Cambay Hindu Merchants' Cooperative Bank Ltd., Cambay.
8. The Aska Cooperative Urban Bank Ltd., Aska.
9. The Satyamangalam Cooperative Urban Bank Ltd., Satyamangalam.
10. Friends Union Cooperative Bank Ltd., Suri.
11. The Puri Urban Cooperative Bank Ltd., Puri..
12. The Khanapur Cooperative Urban Bank Ltd., Khanapur.
13. The Berhampur Cooperative Urban Bank Ltd., Berhampur.
14. The Tirupati Cooperative Town Bank Ltd., Tirupati.
15. The Gotak Urban Cooperative Credit Bank Ltd., Gotak.
16. The Pollachi Cooperative Urban Bank, Ltd., Pollachi.
17. The Mannargudi Cooperative Urban Bank Ltd., Mannargudi.
18. The Vizagapatam Cooperative Bank Ltd., Visakhapatnam.
19. The Basavangudi Cooperative Society Ltd., Bangalore.
20. The Urban Cooperative Bank Ltd., Ajmer.
21. The Nakodar Hindu Cooperative Bank Ltd., Nakodar.
22. The Bangalore City Cooperative Bank Ltd., Bangalore.
23. The Grain Merchants' Cooperative Bank Ltd., Bangalore.
Urban
24. The Durga Cooperative/Bank Ltd., Vijayawada.
25. The Coimbatore City Cooperative Bank Ltd., Coimbatore.
26. The Joynagar Mozilpur People's Bank Ltd., Joynagar-Mozilpur.
27. The Vizianagram Cooperative Bank Ltd., Vizianagaram.
28. The Cuttack Cooperative Urban Bank Ltd., Cuttack.
29. The Baroda City Cooperative Bank Ltd., Baroda.
30. Janata Sahakari Bank Ltd., Poona.
31. Contai Cooperative Bank Ltd., Contai.
32. The Nicholson Cooperative Town Bank Ltd., Thanjavur.

33. Anantapur Cooperative Town Bank Ltd., Anantapur.
34. The Bishnupur Town Cooperative Bank Ltd., Bishnupur.
35. The Pudukkottai Town Bank Ltd., Pudukkottai.
36. Urban Cooperative Bank Ltd., Sangli.
37. The Saify Commercial Cooperative Bank Ltd., Mandsaur.
38. The Nellore Cooperative Urban Bank Ltd., Nellore.
39. The Cooperative Town Bank Ltd., Chittoor.
40. The Mayuram Cooperative Urban Bank Ltd., Mayuram.
41. The Maharashtra State Cooperative Bank's Association Ltd., Fort, Bombay.
42. Sirsi Urban Cooperative Credit Bank Ltd., Sirsi.
43. The Baripada Urban Cooperative Bank Ltd., Baripada.
44. The Bijapur Shri Shiddheshwar Urban Cooperative Bank Ltd., Bijapur.
45. The Surat People's Cooperative Bank Ltd., Surat.
46. Ratnagiri Urban Cooperative Bank Ltd., Ratnagiri.
47. The Poona Merchants' Cooperative Bank Ltd., Poona.
48. The Shibpur Cooperative Bank Ltd., Shibpur.
49. The Mysore Cooperative Society Ltd., Mysore.
50. The City Cooperative Bank Ltd., Mysore.
51. The Nalbari Town Cooperative Bank Ltd., Nalbari.
52. The Maratha Cooperative Credit Bank Ltd., Belgaum.
53. Silchar Town Cooperative Bank Ltd., Silchar.
54. The Prudential Cooperative Urban Bank Ltd., Secunderabad.
55. The Arya Vaishya Cooperative Credit Bank Ltd., Hubli.
56. The Urban Cooperative Bank Ltd., Jaipur.
57. The Mercantile Cooperative Bank Ltd., Jaipur.
58. The Industrial Cooperative Bank Ltd., Gauhati.
59. Nagar District Urban Central Cooperative Bank Ltd., Ahmednagar.
60. The Bombay Mercantile Cooperative Bank Ltd., Bombay.
61. The Saraswat Cooperative Bank Ltd., Bombay.
62. The Manipur Cooperative Bank Ltd., Manipur.

Cooperative house mortgage banks

1. The Kancheepuram Cooperative House Mortgage Bank Ltd.,
2. The Government Servants' Cooperative House Mortgage Bank Ltd., Gopalapuram.
3. The Madras Cooperative Central House Mortgage Bank Ltd., Madras.
4. The Coimbatore Cooperative House Mortgage Bank Ltd., Coimbatore.

Apex state cooperative banks

1. Manipur State Cooperative Bank Ltd., Imphal.
2. Tripura State Cooperative Bank Ltd., Agartala.
3. Bihar State Cooperative Bank Ltd., Bihar.
4. The Andhra Pradesh State Cooperative Bank Ltd., Hyderabad.

Others

1. Coal Mines Labour Welfare Organisation, Jagjiwan Nagar, Dhanbad.
2. Ministry of Home Affairs, Govt. of India, New Delhi.
3. Ministry of Labour and Employment, New Delhi.

Cooperative unions.

नियमित संघ

1. The Jammu and Kashmir Cooperative Union Ltd., Jammu Tawi.
2. National Cooperative Union of India, New Delhi.

State governments

1. Andhra Pradesh
2. Assam.
3. Bihar.
4. Gujarat
5. Maharashtra
6. Madhya Pradesh
7. Madras
8. Mysore
9. Orissa
10. Punjab
11. Rajasthan
12. Uttar Pradesh

13. West Bengal.
14. Kerala
15. Delhi.
16. Himachal Pradesh
17. Manipur
18. Tripura
19. Pondicherry.



APPENDIX - V

INSTITUTIONS VISITED BY THE STUDY GROUP

1. The Calcutta University Co-operative Credit Society, Ltd., Calcutta.
2. The Co-operative Credit Society of the Commissioners for the port of Calcutta, Ltd., Calcutta.
3. The Mercantile Co-operative Society Ltd., Calcutta.
Credit
4. The Turner Co-operative/Society Limited, Calcutta.
5. The Calcutta Police Co-operative Credit Society Limited, Calcutta.
6. The Martin Burn's Co-operative Credit Society Limited, Calcutta.
7. The National Carbon Company Employees Co-operative Society Ltd., Calcutta.
8. The Calcutta Reserve Bank Employees' Co-operative Credit Society Ltd., Calcutta.
9. The Simpson and Group Companies Employees' Cooperative Credit Society Limited, Madras.
10. The Andhra Pradesh State Road Transport Corporation Employees Cooperative Credit Society Limited, Hyderabad.
11. The Andhra Pradesh Secretariat Staff Co-operative Society Ltd., Hyderabad - Dn.
12. The Bombay Dyeing & Manufacturing Company Ltd. (Spring Mills Ltd) Employees Cooperative Credit Society Ltd.
13. The Associated Cement Staff Co-operative Credit Society Ltd., Bombay.
14. Burmah Shell Employees Thrift & Credit Society, New Delhi.
15. The Ministry of Food & Agriculture, Co-operative Thrift & Credit Society Ltd., Krishi Bhavan, New Delhi.
16. The Prudential Co-operative Urban Bank Ltd., Secunderabad.
17. Big Kancheepuram Cooperative Town Bank Ltd., Kancheepuram.
18. Little Kancheepuram Co-operative Urban Bank, Kancheepuram.
19. The George Town Cooperative Bank Limited, Madras -1
20. The Dhakuria Co-operative Credit Society Ltd., Dhakuria.

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APPENDIX - VI

State	Number	Membership	Owned funds	Deposits	Working capital	Advances	Outstanding s	Overdues
Bihar				N11				
Madhya Pradesh	19	22,000	21,66,000	62,42,000	86,05,000	54,07,000	57,99,000	11,15,000
Madras	163	4,80,000	179,51,000	937,67,000	1257,85,000	995,68,000	808,00,000	55,11,000
Maharashtra	162	4,45,000	588,00,000	21,03,00,000	3145,00,000	3365,00,000	1983,00,000	126,00,000
Orissa	15	28,000	18,81,000	64,17,000	83,62,000	46,98,000	53,23,000	15,00,000
Punjab	50	5,000	9,94,000	13,38,000	29,67,000	19,55,000	19,90,000	6,50,000
Rajasthan	2	3,000	4,33,000	13,63,000	20,92,000	13,05,000	9,18,000	1,06,000
U.P.					N11			
Tripura					Nil			
Pondicherry	2	8,900	2,00,100	7,33,400	10,81,500	17,80,600	8,17,000	48,000

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APPENDIX - VII

EMPLOYEES COOPERATIVE CREDIT SOCIETIES, 1961-62.

State	Number	Membership	Owned funds	Deposits	Working capital	Advances	Outstanding	Overdues
Bihar	202	93,000	1,23,13,000	4,41,46,000	5,79,64,000	4,51,71,000	4,49,55,000	10,97,000
Madhya Pra- desh	212	19,000	15,85,000	9,97,000	35,17,000	21,52,000	24,54,000	4,85,000
Madras	675	3,29,000	2,00,66,000	4,22,69,000	7,72,26,000	11,85,57,000	6,71,21,000	32,11,000
Maharashtra,199	4,16,000	13,44,00,000	2,82,00,000	18,82,00,000	10,65,00,000	9,99,00,000	54,00,000	
Orissa	133	17,000*	10,85,000	8,75,000	33,78,000	26,41,000	26,80,000	2,41,000
Punjab	273	62,000	15,07,000	15,23,000	41,19,000	34,18,000	37,50,000	5,32,000
Rajasthan	269	34,000	23,96,000	41,40,000	71,33,000	53,39,000	72,26,000	5,73,000
U.P. (.)	1,057	2,42,000	1,67,77,000	2,41,11,000	4,41,00,000	1,58,51,000	4,30,92,000	13,30,000
Tripura	6	684	46,640	338	46,978	8,995	8,513	1,608
Pondicherry	7	600	34,000	19,300	85,800	1,44,700	71,300	NIL

* Decrease due to liquidation of some large C.C.S. during the year as they were moribund for a long time.

(.) Figures are for all non-agricultural credit cooperatives excluding urban cooperative banks.

Other non-agricultural credit cooperative societies, 1961-62.

State	Number	Membership	Owned funds	Deposits	Working capital advances	Outstandings	Overdues
Bihar							
Jadhra Pradesh	325	47,000	36,13,000	1,07,65,000	1,57,13,000	1,38,14,000	1,18,33,000 8,93,0
Tadras							N.A.
Kalabarashtra	359	3,37,000	87,00,000	3,83,00,000	4,81,00,000	7,22,00,000	6,59,00,000 2,00,0
Priissa	57	1,000	13,000	2,000	49,000	5,000	15,000 8,0
unjab *	1,890	76,000	20,29,000	13,36,000	1,38,25,000	72,24,000	1,08,16,000 43,06,0
ajasthan	76	5,000	4,35,000	4,08,000	9,66,000	5,90,000	8,05,000 1,80,0
.P.							N.A.
Ripura	2	376	8,297	4,328	12,625	Nil	2,093 2,0
ondicherry							N.L.

THE LITERATURE SECTION

APPENDIX-I X

EXTRACT FROM THE REPORT OF THE SECOND WORKING GROUP ON
INDUSTRIAL COOPERATIVES

Schemes for
routine
government
loans through
urban coopera-
tive banks.

Following the recommendations of the Committee set up in 1956 by the Small Scale Industries Board to examine the question of utilising the services of urban cooperative banks to finance small scale industries the Government had introduced a scheme to use their agency for routine government loans. Under the scheme the state governments were requested to select a few urban cooperative banks for this purpose, subscribe to the shares of those of them which had a share capital of less than Rs.20,000 to the extent of the difference between their existing paid up capital and this amount, and place at their disposal government funds for being advanced to small industrialists at 3% interest per annum. It was agreed to pay a subsidy of 3% to the banks to cover the margin required by them for their overhead expenditure and to guarantee the losses if any incurred by them in respect of principal. The banks were expected to meet short-term requirements of the small industrialists from out of their own funds. No subsidy was, however, offered on the bank loans resulting in their having to charge two different rates of interest on the two types of loans to the same party. The Committee had originally suggested selection of 400 urban cooperative banks including 47 new banks that they had recommended to be set up under the scheme in those areas where the urban cooperative banks do not exist or were too weak. The Committee had also given criteria for selection namely concentration of small scale industries, availability of power and transport facilities, etc.

Place of urban
banks in an integ-
rated structure
of industrial
finance.

This scheme has operated to a very limited extent in certain parts of Gujarat and Mysore only. Its implementation is virtually in abeyance. As a result of the recommendations made by the First Working Group on Industrial Cooperatives in regard to the promotion of

institutional finance for this sector through central financing agencies and industrial cooperative banks, efforts are being made increasingly towards integrating the various arrangements for finance. A time has come in our opinion to establish an integrated structure both as regards the banking institutions and the terms and conditions on which they are to cater to industrial finance. It is as a component of this coordinated arrangement that urban cooperative banks organised for the benefit of individual industrial units should find their due place.

We, therefore, recommend that the scheme referred to above be reconsidered and a revised scheme worked out for utilising the agency of the existing or new urban cooperative banks for industrial loans on a pilot scale. Up to six such banks may be organised in each state, in towns which have not got facilities of industrial cooperative bank of the mixed type. In the changed circumstances of the money market, it would be necessary that a bank selected under the scheme should have a minimum paid up capital of Rs. 50,000. Government should assist those banks whose working capital is below this figure by meeting the difference by share participation. The guarantee on the scale suggested in the previous paragraphs should be extended to these banks. They should be given managerial grants by the government to enable them to appoint a special deputy manager an accountant and an inspector for industrial work. This grant may be on the usual sliding scale viz. 100% during the first year, 75% during the second year, 50% during the third year and 25% during the fourth year. Where it is intended to assist them with government funds these should be made available through central financing agencies and not directly. The central financing agencies should make the required funds

available to them at a rate not higher than the Reserve Bank rate of interest viz. $4\frac{1}{2}\%$. We expect that loans should be made available by these banks to their members at a rate of interest not much above that charged by the State Bank of India under its liberalised scheme for financing small scale industries i.e. at about $6\frac{1}{2}\%$. This will allow them a margin of 2% or so for their service charges. In Chapter V, we are recommending a subsidy of 3% to be paid by government to cooperative banks on their own as well as government funds advanced by them to industrial cooperatives. We recommend a similar subsidy on funds advanced by the central financing agencies to urban cooperative banks for industrial purposes. This margin of 3% is to be shared between the apex and central banks. The latter have to operate over a wider area covering a district. The urban banks on the other hand operate in a compact area based on selected towns where conditions are favourable. The margin of 2% or so on the supplemental finance should, therefore, suffice. Where this is found to be inadequate the central financing agencies may consider the granting of a more favourable rate than $4\frac{1}{2}\%$ or the urban cooperative banks may be permitted to charge a somewhat higher rate of interest to the borrowing units. In areas where selection cannot be made out of the existing urban cooperative banks, new banks may be organised for the purpose. The results of the pilot experiment may be reviewed at the end of 3 years for further extension of the scheme.